PIRELLI & C. S.P.A. SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2020

STATEMENT OF FINANCIAL POSITION

(in euro)

	Note	12/31/2020	*of which related parties (Note 39)*	12/31/2019	*of which related parties (Note 39)*
Property, plant and equipment	8	76,326,337		67,368,466	
Intangible assets	9	2,273,753,812		2,275,363,639	
Investments in subsidiaries	10	4,633,665,637		4,647,665,638	
Investments in associates	11	6,374,501		6,374,501	
Other financial assets	12	41,073,518		57,202,933	
Other receivables	13	2,000,575,034	*2,000,000,000*	619,605	
Derivative financial instruments	17	-		30,268,648	*30,268,648*
Non-current assets		**9,031,768,839**		**7,084,863,430**	
Trade receivables	14	80,567,655	*76,654,853*	23,774,954	*21,725,022*
Other receivables	13	1,166,741,332	*1,154,822,631*	2,347,951,637	*2,327,043,431*
Cash and cash equivalents	15	1,741,849		1,754,093	
Tax receivables	16	32,675,745	*31,368,963*	31,743,542	*29,829,632*
Derivative financial instruments	17	2,894,124	*2,894,124*	10,154,148	*10,154,148*
Current assets		**1,284,620,705**		**2,415,378,374**	
Total assets		**10,316,389,544**		**9,500,241,804**	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,162,640,657		2,135,985,619	
- Retained earnings reserve		540,084,129		266,842,318	
- Net income of the year		43,956,054		273,241,811	
Total shareholders' equity	**18**	**4,651,055,776**		**4,580,444,684**	
Borrowings from banks and other financial institutions	19	4,623,295,428		3,577,172,974	
Other payables	23	538,238	*211,511*	211,511	*211,511*
Provisions for liabilities and charges	20	11,105,042	*5,925,871*	40,330,854	*3,065,355*
Provision for deferred tax liabilities	24	524,338,063		538,902,124	
Employee benefit obligations	21	8,463,592	*1,349,130*	4,276,571	
Derivative financial instruments	17	109,696,906	*109,696,906*	9,588,636	*9,588,636*
Non-current liabilities		**5,277,437,269**		**4,170,482,670**	
Borrowings from banks and other financial institutions	19	307,349,886	*2,084,327*	678,288,912	*252,124*
Trade payables	22	27,570,277	*3,080,055*	19,262,363	*4,770,882*
Other payables	23	25,312,098	*6,575,851*	32,107,042	*14,565,091*
Employee benefit obligations	21	2,447,901	*1,697,946*	2,034,344	*1,099,996*
Tax payables	25	11,985,460	*11,756,578*	17,616,705	*17,387,827*
Derivative financial instruments	17	13,230,877	*13,230,877*	5,084	*5,084*
Current liabilities		**387,896,499**		**749,314,450**	
Total Liabilities and Equity		**10,316,389,544**		**9,500,241,804**	

INCOME STATEMENT

(in euro)

	Note	2020	*of which related parties (Note 39)*	2019	*of which related parties (Note 39)*
Revenues from sales and services	27	53,485,963	*53,336,756*	51,992,302	*50,822,605*
Other income	28	124,405,233	*111,602,641*	110,179,851	*106,726,066*
Raw materials and consumables used	29	(228,201)		(225,458)	
Personnel expenses	30	(49,952,080)	*(8,909,020)*	(48,228,505)	*(5,571,006)*
Amortisation, depreciation and impairment	31	(9,916,348)		(8,253,996)	
Other costs	32	(108,667,961)	*(20,456,756)*	(89,518,450)	*(22,315,223)*
Net impairment loss on financial assets	33	(23,024)		(96,923)	
Operating income (loss)		**9,103,582**		**15,848,821**	
Net income (loss) from equity investments	34	39,650,001		268,905,541	
- gains on equity investments		*1*		*2,065*	*2,065*
- losses on equity investments		*(14,000,000)*	*(14,000,000)*	*-*	
- dividends		*53,650,000*	*53,650,000*	*268,903,476*	*263,841,647*
Financial income	35	68,152,687	*30,994,080*	40,274,216	*39,705,871*
Financial expenses	36	(104,537,534)	*(34,837,663)*	(64,024,611)	*51,506,753*
Net income (loss) before taxes		**12,368,736**		**261,003,967**	
Taxes	37	31,587,318		12,237,844	
Total net income of the year		**43,956,054**		**273,241,811**	

STATEMENT OF COMPREHENSIVE INCOME

(in euro)

		Note	2020	2019
A	**Net income of the year**		**43,956,054**	**273,241,811**
	- Remeasurement of employee benefits	21	(18,491)	(95,957)
	- Tax effect		4,438	21,120
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	12	(16,129,415)	(366,374)
B	**Items that may not be reclassified to income statement**		**(16,143,468)**	**(441,211)**
	Fair value adjustment of derivatives designated as cash flow hedge:			
	- Gains / (losses) for the period	17	(118,508,558)	69,841,426
	- (Gains) / losses reclassified to income statement	17	120,951,632	(78,130,940)
	- Tax effect		(586,338)	1,989,483
	Cost of hedging			
	- Gains / (losses) for the period	17	4,682,676	5,350,715
	- (Gains) / losses reclassified to income statement	17	(5,022,200)	(7,627,777)
	- Tax effect		81,486	546,495
C	**Items reclassified / that may be reclassified to income statement**		**1,598,698**	**(8,030,598)**
D	**Total other components of comprehensive income (B+C)**		**(14,544,770)**	**(8,471,809)**
A+D	**Total comprehensive income / (loss) for the financial year**		**29,411,284**	**264,770,002**

STATEMENT OF CHANGES IN EQUITY

(in euro)

	Share Capital	Legal Reserve	Share Premium Reserve	Concentration Reserve	Other reserves	IAS Reserves *	Merger Reserve	Reserve from results carried forward	Net result of the year	Total
Total at 12/31/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**5,240,963**	**1,022,927,715**	**181,511,751**	**262,362,041**	**4,492,674,684**
Dividend distribution	-	-	-	-	-	-	-	-	(177,000,000)	(177,000,000)
Result carried forward as per resolution of May 15, 2019	-	-	-	-	-	-	-	85,362,041	(85,362,041)	-
Other components of comprehensive income	-	-	-	-	-	(8,471,809)	-	-	-	(8,471,809)
Result for the year	-	-	-	-	-	-	-	-	273,241,811	273,241,811
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(8,471,809)*	-	-	*273,241,811*	*264,770,002*
Other changes	-	-	-	-	-	31,475	-	(31,475)	-	-
Total at 12/31/2019	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**(3,199,371)**	**1,022,927,715**	**266,842,318**	**273,241,811**	**4,580,444,684**
Result carried forward as per resolution of June 18, 2020	-	-	-	-	-	-	-	273,241,811	(273,241,811)	-
Bond conversion reserve	-	-	-	-	41,199,808	-	-	-	-	41,199,808
Other components of comprehensive income	-	-	-	-	-	(14,544,770)	-	-	-	(14,544,770)
Result for the year	-	-	-	-	-	-	-	-	43,956,054	43,956,054
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(14,544,770)*	-	-	*43,956,054*	*29,411,284*
Total at 12/31/2020	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**133,734,599**	**(17,744,141)**	**1,022,927,715**	**540,084,129**	**43,956,054**	**4,651,055,776**

	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	**Reserve for cost of hedging**	**Cash flow hedge reserve**	**Reserve Remeasurement for employee benefit**	**Tax effect**	**Total IAS Reserves**
Balance at 12/31/2018	**10,972,470**	**6,835,817**	**(17,037,448)**	**2,019,748**	**2,450,376**	**5,240,963**
Other components of comprehensive income	(366,374)	(2,277,062)	(8,289,514)	(95,957)	2,557,098	(8,471,809)
Other changes	31,475	-	-	-	-	31,475
Balance at 12/31/2019	**10,637,571**	**4,558,755**	**(25,326,962)**	**1,923,791**	**5,007,474**	**(3,199,371)**
Other components of comprehensive income	(16,129,415)	(339,524)	2,443,074	(18,491)	(500,414)	(14,544,770)
Balance at 12/31/2020	**(5,491,844)**	**4,219,231**	**(22,883,888)**	**1,905,300**	**4,507,060**	**(17,744,141)**

CASH FLOW STATEMENT

(in euro)

		Note	2020	*of which related parties (Note 39)*	2019	*of which related parties (Note 39)*
	Net income (loss) before taxes		12,368,736		261,003,967	
	Reversals of amortisation, depreciation, impairment losses	31	9,916,348		8,253,996	
	Reversal of accruals	32	11,834,568		2,623,933	
	Reversal of Financial income/(financial expenses)	36	36,384,847	*3,843,583*	23,750,395	*(91,212,624)*
	Reversal of Dividends	34	(53,650,000)	*(53,650,000)*	(268,903,476)	
	Reversal of (gain)/losses on equity investments	34	13,999,999	*13,999,999*	(2,065)	*(263,841,647)*
	Reversal of Gains/losses from sales of property, plant and equipment and intangible assets	28	(7,939,419)		1,909	
	Net taxes paid		-		-	
	Change in Trade receivables	14	(56,815,726)	*(54,929,831)*	11,505,912	*10,627,130*
	Change in Trade payables	22	8,307,914	*(1,690,827)*	(3,070,023)	*(1,784,032)*
	Change in Other receivables	13	13,731,447	*247,000*	5,316,000	*1,367,000*
	Change in Other payables	23	(5,745,869)	*(5,517,611)*	(17,055,252)	*(14,282,767)*
	Change in Tax receivables/Tax payables	16	9,237,046	*9,237,046*	45,327,218	*45,961,314*
	Use of Provisions for employee benefit obligations	21	(2,119,269)	*(1,099,996)*	(1,965,000)	*(552,734)*
	Use of Other provisions	20	(38,459,199)		(3,146,200)	
A	**Net cash flows provided by/(used in) operating activities**		**(48,948,576)**		**63,641,315**	
	Investments in property, plant and equipment	8	(2,671,000)		(165,500)	
	Disposal of property, plant and equipment	8	4,683,035		21,000	
	Investments in intangible assets	9	(858,351)		(1,554,334)	
	(Acquisition) of investments in subsidiaries	10	-		(75,883,269)	*(75,883,269)*
	Disposals /(Acquisition) of other non current financial assets at fair value through other comprehensive income	12	-		9,431,000	
	Dividends received	34	53,650,000	*53,650,000*	268,270,519	*263,841,647*
B	**Net cash provided/(used) by investment activities**		**54,803,684**		**200,119,416**	
	Change in Financial receivables	13	(827,567,175)	*(821,528,964)*	(204,828,000)	*(204,802,000)*
	Financial income	35	24,606,201	*24,524,783*	43,889,329	*43,840,121*
	Change in Borrowings from banks and other financial institutions due to draw down	19	2,427,978,000		1,120,930,986	
	Change in Borrowings from banks and other financial institutions due to repayments	19	(1,557,746,749)		(1,100,556,252)	
	Dividends paid	18	-		(177,000,000)	
	Financial expenses	36	(67,338,777)	*22,625,758*	(43,508,386)	*52,134,229*
	Cash outflow for lease obligations	19	(5,798,851)		(2,698,417)	
C	**Net cash provided/(used) by financing activities**		**(5,867,352)**		**(363,770,741)**	
D	**Total net cash generated/(used) in the year (A+B+C)**		**(12,244)**		**(100,010,010)**	
E	**Opening balance of Cash and cash equivalents**		**1,754,093**		**101,764,103**	
F	**Closing balance of Cash and cash equivalents (D+E)**		**1,741,849**		**1,754,093**	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also the "Company" or the "Parent Company") is a corporation organized under the laws of the Republic of Italy.

Founded in 1872, it is a holding company that manages, coordinates and funds the activities of subsidiaries (hereinafter Pirelli Group).

The registered office of the Company is in Viale Piero e Alberto Pirelli 25 – Milan.

As from October 4, 2017, Pirelli & C. S.p.A. shares are now traded on the Mercato Telematico Azionario (MTA Telematic Stock Market), managed by Borsa Italiana S.p.A.

The audit of the financial statements is entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree January 27, 2010 no. 39 and in execution of the resolution of the shareholders' meeting of August 1, 2017, which assigned the mandate to this company for each of the nine financial years ending from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., a company indirectly controlled by China National Chemical Corporation ("ChemChina"), a "state-owned enterprise" (SOE) under Chinese law, with registered office in Beijing, referring to the Central Government of the People's Republic of China.

There are no entities that exercise management and coordination activities over the Company.

On March 31, 2021, the Board of Directors authorised publication of these Annual Financial Statements ("Annual Financial Statements or Separate Financial Statements").

SIGNIFICANT EVENTS 2020

Following the Covid-19 emergency, in the **first three months of 2020**, Pirelli activated a series of measures to protect the health of employees and the community at both the Headquarters and the factories, the production of which, first in China and then in the rest of the world, has progressively slowed and subsequently stopped. During the **second quarter**, after the restart of operations already in China, the other Group plants also gradually restarted production, initially at a slower pace, taking into account the drop in demand.

On **March 2, 2020**, the Pirelli Board of Directors approved the 2019 financial statements of Pirelli & C. S.p.A. that closed with a profit of euro 273,242 thousand and resolved to propose to the shareholders' meeting the distribution of a unit dividend of euro 0.183 for a total of euro 183 million. On **April 3, 2020**, as part of the containment actions of Covid-19, the Board of Directors subsequently cancelled the distribution of dividends for the 2019 financial year, modifying the previous resolution.

On **March 31, 2020**, Pirelli announced that it had signed a new euro 800 million credit line with an incentive mechanism linked to product and process environmental sustainability objectives and with a 5-year maturity used mainly to repay existing debt. The company has also extended the maturity of a euro 200 million credit line by more than one year (to September 2021 from June 2020). These transactions are part of the constant optimisation and strengthening actions of Pirelli's financial structure.

On **October 28, 2020,** the EU Court of Justice confirmed the previous decisions of the EU Court and the EU Commission regarding the cartel in the electricity cables market, which had imposed a pecuniary sanction on Prysmian Cavi e Sistemi S.r.l., for a part of which (euro 67,310,000) Pirelli had been called to jointly respond with Prysmian in the exclusive application of the EU principle of parental liability. In this regard, Pirelli had already filed a bank guarantee of euro 33,655,000 in favour of the EU Commission (corresponding to 50% of the fine imposed jointly on Prysmian and Pirelli) in addition to interest. The payment by Pirelli of the aforementioned portion of the fine to which it is entitled, the value of which had already been accrued in its provisions for risks and charges, took place on **December 31, 2020**. It should be noted that since 2014, a judgement brought by Pirelli before the Court of Milan has also been pending, aimed at obtaining the assessment and declaration of the obligation of Prysmian to hold Pirelli harmless from any claim relating to the cartel, including the sanction imposed by the EU Commission.

On **December 15, 2020,** Pirelli placed euro 500 million of non-interest bearing unsecured guaranteed equity-linked senior bonds maturing in 2025 convertible, subject to approval by the shareholders' meeting, into Pirelli shares. The bonds were issued at a price equal to 100.0% of the nominal value, with a conversion price of euro 6.235 per share (equal to a 45% premium on the reference price of the transaction of euro 4.3 per share). This financing makes it possible to optimise the debt profile, extending its maturities, and to preserve the cash generated by the business, thanks to the non-interest bearing nature of the bonds. The proceeds deriving from the issue of the bonds can be used both for the general activities of the Group and for the refinancing of part of the existing debt. The bond was admitted to trading on the Vienna MTF, a multilateral trading facility managed by the Vienna Stock Exchange.

2. BASIS FOR PREPARATION

These Financial Statements have been prepared on a going concern assumption since the Directors have verified the absence of financial, operational or other types of indicators that could indicate critical issues regarding the ability of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months. Please refer to the Explanatory Notes to the Consolidated Financial Statements on the considerations regarding the actions implemented in response to the Covid-19 emergency, confirming the assumption of business continuity. The description of the ways in which the Company manages financial risks is contained in Chapter 4 Financial risk management policy and Chapter 6 Capital management policy of these Notes.

In application of Legislative Decree of February 28, 2005, no. 38, "Exercise of the options provided for by article 5 of regulation (EC) no. 1606/2002 on international accounting standards", issuers are required to prepare not only the consolidated financial statements but also the financial statements of the Company in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Community (GUCE).

IFRS include all "International Financial Reporting Standards", "International Accounting Standards" (IAS), all interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), formerly the "Standing Interpretations Committee" (SIC).

The financial statements have been prepared on the basis of the historical cost criterion with the exception of the following items valued at fair value:

- derivative financial instruments;
- other financial assets at fair value recorded in the other components of the comprehensive income statement;
- other financial assets at fair value through the income statement.

FINANCIAL STATEMENTS

The separate Financial Statements at December 31, 2020 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Company has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Comprehensive Income Statement. The Income Statement adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRS, are recorded directly in equity.

The Company opted for the presentation of the tax effects and reclassifications to the income statement of profits/losses recognised in equity in previous years directly in the Statement of Comprehensive Income and not in the Notes.

The Statement of Changes in Equity includes, in addition to the total gains/losses of the period, the amounts from transactions with equity holders and the changes in reserves during the year.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in thousands of euro.

3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of separate financial statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except as indicated below.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recognised at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associates, determined based on the historical cost basis, is tested for impairment.

The indicators are as follows:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets (inclusive of any associates goodwill) expressed in the consolidated financial statements;
- the dividend distributed by the investee exceeds the total comprehensive income of the investee company in the year to which the dividend refers;
- the operating result achieved by the investee company is significantly lower than the amount envisaged in the management plan, if this indicator can be considered significant for the reference company;
- there are expectations of significantly decreasing operating results for future years;
- existence of changes in the technological, market, economic or regulatory environment in which the investee operates that may generate significant negative economic effects on the company's results.

The impairment test consists of comparing the carrying amount and the recoverable value of the investment.

If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss recognised in the Income Statement.

The recoverable amount of an investment is identified as the greater of fair value, less costs to sell, and value in use.

For the purposes of impairment testing, the fair value of an investment in a subsidiary, associate or joint venture with shares listed on an active market is always equivalent to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best information available.

For the purposes of determining the value in use of a subsidiary and associate, the future net operating cash flows are estimated, discounted net of the net financial position of the company considered at the reference date of the estimate (Discounted Cash Flow criterion – Asset side). The value in use reflects the effects of factors that may be entity specific, factors that may not be applicable to any entity.

If the reason for impairment ceases to exist, the carrying amount of the investment is recognised in the Income Statement, up to the original cost.

IMPAIRMENT OF FINANCIAL RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES

The impairment of financial receivables from subsidiaries and associates is calculated with reference to the expected losses in the following twelve months. This calculation is based on a matrix that includes the ratings of the companies provided by independent market operators. In the event of a significant increase in credit risk after the date of origin of the credit, the expected loss is calculated with reference to the entire life of the credit. The Company assumes that the credit risk relating to a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date.

The Company assesses whether there has been a significant increase in credit risk when the counterparty's credit rating, as assigned by independent market participants, undergoes a change that shows an increase in the probability of default. The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the full contractual amount past due (for example, when receivables have been referred to the legal department).

DIVIDENDS

Dividend income is recognised in the Income Statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE FROM JANUARY 1, 2020

In accordance with IAS 8 "Accounting standards, changes in accounting estimates and errors", the IFRS effective from January 1, 2020 are indicated below:

→ Amendments to IFRS 3 "Business Combinations"

These amendments introduced a new business definition, according to which for an acquisition to qualify as a business combination, it must include input and processes that contribute substantially to obtaining an output. The definition of output is modified in a restrictive sense, and it is specified that cost savings and other economic benefits are to be excluded as output. This amendment will result in multiple acquisitions qualifying as asset acquisitions rather than business acquisitions. There are no impacts on the Financial Statements of the Company.

→ Amendments to IAS 1 "Presentation of Financial Statements" and to IAS 8 "Accounting standards, changes in accounting estimates and errors" – Definition of relevant

In addition to clarifying the concept of materiality of transactions, these amendments focus on the definition of a coherent and unique concept of materiality among the various accounting standards and incorporate the guidelines included in IAS 1 on insignificant information.

There are no impacts on the Financial Statements and disclosures of the Company.

→ Amendments to IFRS 9, IAS 39 and IFRS 7: Reference interest rate reform (IBOR reform)

These amendments concern the impacts on the financial statements deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates: in the presence of hedging relationships affected by the uncertainty of the reform of the reference rates, these amendments do not allow the valuations required by IFRS 9 in the presence of changes in rates.

The effects of these amendments on interest rate hedging transactions carried out by the Company are continuously monitored. There are no impacts until LIBOR is replaced by the new benchmark rate (expected in 2021).

→ Amendments to IFRS 16 Leases – reductions in fees related to Covid-19

These amendments introduce an optional accounting treatment for lessees in the presence of reductions in permanent (rent holidays) or temporary fees related to Covid-19.

Lessees can choose to account for lease reductions occurring up to June 30, 2021 as variable lease payments recognised directly in the income statement for the period in which the reduction applies, or treat them as a modification of the lease contract with the consequent obligation to remeasure the lease payable based on the revised fee using a revised discount rate. These lease reductions were treated as variable lease payments, and therefore recognised directly in the income statement for the period. The positive impact on the 2020 income statement was euro 111 thousand.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE IN 2020

Pursuant to IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new Standards or Interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2020, and which are therefore not applicable, and the foreseeable impacts on the Separate Financial Statements.

None of these standards and interpretations have been adopted in advance by the Group.

- Amendments to IAS 1 - Presentation of Financial Statements - Classification of liabilities as current or non-current
  The amendments clarify the principles that must be applied for the classification of liabilities as current or non-current. These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union. No significant impacts are expected on the classification of financial liabilities following these amendments.
- Amendments to IAS 16 - Property, plant and machinery - Fees received before intended use
  These amendments prohibit deducting from the cost of property, plant and machinery amounts received from the sale of products, while the asset is being prepared for its intended use. The proceeds from the sale of the products, and the related production cost must be recorded in the income statement.
  These amendments, which will come into force on January 1, 2022, have not yet been approved by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.
- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Costs of fulfilling a contract
  These amendments specify the costs to be taken into account when evaluating onerous contracts.
  These amendments, which will come into force on January 1, 2022, have not yet been approved by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.
- *Annual Improvements* (cycle 2018 – 2020) issued in May 2020
  These are amendments limited to some standards (IFRS 1 First-time adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples of IFRS 16 Leases) that clarify the formulation or correct omissions or conflicts between the requirements of IFRS. These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union. No significant impacts are expected on the Company's Financial Statements following these amendments.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Reference interest rate reform (IBOR reform – phase 2)
  These amendments concern the operating methods by means of which to manage the impacts deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates, in particular:

  - the introduction of a practical expedient for accounting for changes in the basis on which the contractual cash flows of financial assets and liabilities are calculated;
  - the introduction of some exemptions relating to the termination of hedging;
  - the temporary exemption from the obligation to separately identify a risk component (where such separate component subject to hedging is represented by an alternative interest rate);
  - the introduction of some additional disclosures regarding the impacts of the reform.

  These amendments, which will come into force on January 1, 2021, have already been endorsed by the European Union. The impacts on the Company's Financial Statements are being analysed.

4. FINANCIAL RISK MANAGEMENT POLICY

The measurement and management of the financial risks of Pirelli & C. S.p.A. are consistent with as defined by the Group policies.

The Pirelli Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

The main financial risk categories to which the Company is exposed are shown below:

EXCHANGE RATE RISK

This risk is generated by the commercial and financial transactions that are executed in currencies other than the Euro. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group aims to minimise the impact of transaction exchange rate risk related to volatility. To achieve this objective, Group procedures make the Operating Units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency and, in accordance with established guidelines and restrictions, it closes all risk positions by trading derivative contracts on the market, which typically take the form of forward contracts.

The Group has decided not to opt for hedge accounting pursuant to IFRS 9, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.

Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.

From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (e.g. zero cost collar). Hedge accounting in accordance with IFRS 9 is used when the conditions are met.

With reference to some foreign currency loans, the Company enters into derivative contracts, cross currency interest rate swaps, to hedge for which hedge accounting is activated in compliance with the requirements of IFRS 9.

The effects on the shareholders' equity and on the income statement of the Company deriving from changes in exchange rates calculated on the hedging instruments in place at December 31, 2020 are described in Note 17 "Derivative financial instruments".

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

The Group assesses based on market circumstances whether to enter into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IFRS 9 are fulfilled.

The following is an outline of the effects on net arising from an increase or decrease of 0.50% in the level of interest rates, with all other conditions being equal:

(in thousands of euro)

	+0.5%		-0.5%	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Impact on Net income (loss)	(4,982)	505	4,982	(505)

The effects on the Company shareholders' equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2020 are described in Note 17 "Derivative financial instruments".

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets at fair value recognised as other components of the statement of comprehensive income.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets at fair value recognised as other components of the statement of comprehensive income consist of listed securities amounted to euro 14,076 thousand (euro 24,892 thousand at December 31, 2019) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to euro 15,902 thousand (euro 20,565 thousand at December 31, 2019); these financial assets represent 73% of total financial assets subject to price risk; a +5% price change in the above listed securities, other things being equal, would result in a positive change of euro 704 thousand of the Company's shareholders' equity (positive for euro 1,245 thousand at December 31, 2019), while a -5% negative change of these listed securities, other things being equal, would result in a negative change of euro 704 thousand of the Company's shareholders' equity (negative for euro 1,245 thousand at December 31, 2019).

CREDIT RISK

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties.

The Company's exposure to commercial and financial obligations is mainly towards Group companies.

To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary. The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure to individual counterparties.

The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

Cash is deposited according to risk diversification principles and in compliance with minimum rating levels. Specifically, as of December 31, 2020, cash and cash equivalents totaling 1,742 thousand euros were held in the company's current accounts with domestic credit institutions with credit ratings of Baa1 according to Moody's and BBB according to Standard & Poor's ratings

LIQUIDITY RISK

Liquidity risk represents the risk that the financial resources available are insufficient to meet the financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.

Furthermore, the Group adopts an extremely prudent approach with respect to the maturities of its financial debt, with refinancing well in advance in order to minimize the risks associated with liquidity crises or market shut-downs.

At December 31, 2020, the Company had, aside from cash equal to euro 1,742 thousand (euro 1,754 thousand at December 31, 2019), unused credit facilities equal to euro 700,000 thousand (euro 700,000 thousand at December 31, 2019) maturing Q2 2022.

The **maturities of financial liabilities at December 31, 2020** may be broken down as follows:

(in thousands of euro)

	12/31/2020				
	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
Payables to banks and other lenders	347,480	1,683,574	3,068,653	22,821	5,122,528
of which lease liabilities:	*7,301*	*7,073*	*19,393*	*22,821*	*56,587*
Trade payables	27,570	-	-	-	27,570
Other payables	25,312	538	-	-	25,850
Derivative financial instruments	13,180	90,838	2,865	-	106,883
Total	**413,542**	**1,774,950**	**3,071,518**	**22,821**	**5,282,831**

The **maturities of financial liabilities at December 31, 2019** may be broken down as follows:

(in thousands of euro)

	12/31/2019				
	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
Payables to banks and other lenders	729,738	152,065	3,557,415	42,221	4,481,439
of which lease liabilities:	*4,143*	*5,448*	*14,497*	*21,880*	*45,968*
Trade payables	19,262	-	-	-	19,262
Other payables	33,383	-	-	-	33,383
Derivative financial instruments	1,650	3,354	4,008	142	9,154
Total	**784,033**	**155,419**	**3,561,423**	**42,363**	**4,543,238**

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The levels are as follows:

- level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- level 2 – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows the **assets measured at fair value at December 31, 2020**, divided into the three levels defined above:

(in thousands of euro)

	Note	12/31/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	2,894	-	2,894	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	38,288	14,076	15,903	8,309
Investment funds	12	2,786	-	2,786	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	-	-	-	-
TOTAL ASSETS		**43,968**	**14,076**	**21,583**	**8,309**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	(13,226)	-	(13,226)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(109,697)	-	(109,697)	
TOTAL LIABILITIES		**(122,923)**	**-**	**(122,923)**	**-**

At December 31, 2019, the breakdown was as follows:

(in thousands of euro)

	Note	12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	11	-	11	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	53,256	24,892	20,565	7,799
Investment funds	12	3,947	-	3,947	-
Derivative hedging instruments					
Non current derivative financial instruments	17	30,269	-	30,269	-
Current derivative financial instruments	17	10,143	-	10,143	-
TOTAL ASSETS		**97,626**	**24,892**	**64,935**	**7,799**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	(5)	-	(5)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(9,589)	-	(9,589)	-
TOTAL LIABILITIES		**(9,594)**	**-**	**(9,594)**	**-**

The following table shows the **changes of financial assets that occurred in level 3**:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**7,799**	**7,372**
Fair value adjustments through other comprehensive income	510	427
Closing balance	**8,309**	**7,799**

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (euro 7,962 thousand).

In the year ended December 31, 2020, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise equity investments classified as financial assets at fair value through other comprehensive income.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- market prices for similar instruments;
- the fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The following are the carrying amounts for each class of financial asset and liability identified by IFRS 9:

(in thousands of euro)

	Note	12/31/2020	12/31/2019
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Non-current derivative financial instruments	17	-	11
Current derivative financial instruments	17	2,894	-
		2,894	11
Financial assets at amortized cost			
Other non-current receivables	13	2,000,575	620
Current trade receivables	14	80,568	23,775
Other current receivables	13	1,166,741	2,347,952
Cash and cash equivalents	15	1,742	1,754
		3,249,626	*2,374,101*
Financial assets at fair value through other comprehensive income			
Financial assets at fair value through other comprehensive income	12	41,074	57,203
Derivative hedging instruments			
Current derivative financial instruments	17	-	10,143
Non-current derivative financial instruments	17	-	30,269
		-	**40,412**
Total financial assets		**3,293,594**	**2,471,727**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through income statement			
Current derivative financial instruments	17	13,231	5
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions (excl. Lease payables)	19	4,579,366	3,541,694
Current borrowings from banks and other financial institutions (excl. Lease payables)	19	301,571	675,542
Current trade payables	22	27,570	19,262
Other non-current payables	23	538	212
Other current payables	23	25,312	32,107
		4,934,357	*4,268,817*
Lease payables			
Non-current lease payables	19	43,929	35,479
Current lease payables	19	5,779	2,747
		49,708	*38,226*
Derivative hedging instruments			
Current derivative financial instruments	17	-	-
Non current derivative financial instruments	17	109,697	9,589
		109,697	*9,589*
Total financial liabilities		**5,106,994**	**4,316,637**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with progressive deleverage of the financial structure in the short/medium term, as also reported in the section on "Outlook for the next five years" in the Management Report on Operations.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the Separate Financial Statements entails Management making estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. Therefore, the actual results achieved may differ from said estimates. Estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement in the period in which the estimate is revised. If such estimates and assumptions, based on the best evaluation currently available, should differ from actual circumstances, they will be modified accordingly in the period of the change of the circumstances. The estimates and assumptions mainly refer to the valuation of the recoverability of intangible assets with indefinite useful life and of the investments in subsidiaries, to the determination of payables for leases and rights of use, to the determination of taxes (current and deferred), and to the recognition/valuation of provisions for risks and charges. These estimates and assumptions take into account the effects deriving from the Covid-19 pandemic, which have had particular impacts on the assessment of the recoverability of intangible assets with indefinite useful life, on the determination of taxes (current and deferred) and on the assessment of the recoverability of investments in subsidiaries. These impacts are described in the explanatory notes to which reference is made for further details.

PIRELLI BRAND (INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand is an intangible asset with indefinite useful life not subject to amortisation, but, pursuant to IAS 36, to impairment test annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2020 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement). The key assumptions used by management are the estimate of future increases in sales, their growth rate beyond the explicit forecast period, the royalty rate, and the discount rate, which is based on the weighted average cost of capital plus a bonus determined based on the riskiness of the specific asset.

RIGHTS OF USE AND LEASE PAYABLES

With regard to the estimates and assumptions used to determine lease payables and rights of use, the application of IFRS 16 introduced some elements of professional judgement and the use of assumptions and estimates in relation to the lease term, to the definition of the incremental borrowing rate. The standards are summarised as follows:

- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Company has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Company, only the first extension period has been considered;
- the automatic renewal clauses of contracts in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Company and the penalties to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Company considers including a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing the renewal;
- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Company, specific assessments are contractually conducted (for example, the Company is already negotiating a new contract or has already given notice to the lessor).

INVESTMENTS IN SUBSIDIARIES

Investments are assessed to establish whether there was a decrease in value, to be recognised with impairment, if there are indications that it will be difficult to recover their net accounting value. To establish the presence of said indications, Directors must make subjective assessments on the basis of information available within the Company and the market, as well as historical experience. Moreover, if it is determined that a potential impairment loss may be generated, the Company calculates this loss using appropriate measurement techniques.

The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on factors that may vary over time, affecting the assessments and estimates made by Directors. In particular, the key assumptions used by management are the estimate of future increases in sales, operating cash flows, the growth rate of operating cash flows beyond the explicit forecast period to estimate the terminal value and the weighted average cost of capital (discount rate).

PROVISIONS FOR RISKS AND CHARGES

Provisions are set aside against legal and fiscal risks related to indirect taxes, representing the risk of losing lawsuits. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company's Financial Statements.

TAXES

Significant elements of estimation are necessary in defining the forecasts of current taxes for the year and deferred tax assets and liabilities.

8. PROPERTY, PLANT AND EQUIPMENT

The breakdown of these items is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
- Tangible assets	33,988	34,878
- Rights of use	42,338	32,490
Net Value	**76,326**	**67,368**

8.1 OWNED TANGIBLE ASSETS

The breakdown and changes of these items are as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	5,245	-	**5,245**	6,584	-	**6,584**
Buildings	44,179	(21,866)	**22,313**	48,974	(24,934)	**24,040**
Plant and machinery	2,787	(1,820)	**967**	3,627	(3,380)	**247**
Industrial and trade equipment	1,891	(1,011)	**880**	942	(936)	**6**
Other assets	14,938	(10,355)	**4,583**	14,397	(10,560)	**3,836**
Assets under construction	-	-	**-**	165	-	**165**
Total	**69,040**	**(35,052)**	**33,988**	**74,689**	**(39,811)**	**34,878**

(in thousands of euro)

NET VALUE	12/31/2019	Increases	Decreases	Riclassif.	Depreciation	12/31/2020
Land	**6,584**	-	(1,339)	-	-	**5,245**
Buildings	**24,040**	45	(355)	1	(1,418)	**22,313**
Plant and machinery	**247**	884	(33)	98	(229)	**967**
Industrial and trade equipment	**6**	949	-	-	(76)	**879**
Other assets	**3,836**	793	(16)	66	(95)	**4,584**
Assets under construction	**165**	-	-	(165)	-	**-**
Total	**34,878**	**2,671**	**(1,743)**	**-**	**(1,818)**	**33,988**

(in thousands of euro)

NET VALUE	12/31/2018	Increases	Decreases	Business combination	Depreciation	12/31/2019
Land	**6,584**	-	-	-	-	**6,584**
Buildings	**25,535**	-	-	-	(1,495)	**24,040**
Plant and machinery	**453**	-	-	-	(206)	**247**
Industrial and trade equipment	**9**	-	-	-	(3)	**6**
Other assets	**4,046**	-	(21)	15	(203)	**3,836**
Assets under construction	**-**	165	-	-	-	**165**
Total	**36,627**	**165**	**(21)**	**15**	**(1,907)**	**34,878**

The increases are mainly due to the purchase by the company of plant, equipment and furniture for the new company canteen.
The decreases in the year mainly refer to the sale of the land located in Settimo Torinese and the building and related land located in Milan, on which gains of approximately euro 8,000 thousand euro were realised, as outlined in Note 28.
Financial expenses were not capitalised on property, plant and equipment.

8.2 RIGHTS OF USE

The net value of the assets for which the Company has stipulated a lease contract is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Rights of use Buildings	40,588	30,327
Rights of use Other assets	1,750	2,163
Net value	**42,338**	**32,490**

Rights of use on buildings mainly refer to contracts relating to offices.

Rights of use on other assets mainly refer to contracts relating to motor vehicles. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

The increases in rights of use in 2020 amounted to euro 14,506 thousand (euro 550 thousand in 2019) for new office lease contracts.

There were no reassessments or changes to significant contracts in 2020.

At December 31, 2020, amortisation of user rights recognised in the income statement and included in the item "depreciation, amortisation and impairments" are as follows:

(in thousands of euro)

	2020	2019
Buildings	4,839	3,234
Other assets	792	789
Total depreciation of right of use	**5,631**	**4,023**

For interest expense recognised in connection with lease contracts, refer to the information in Note 36 "Financial expenses".

For information on costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value goods and lease contracts with variable fees, refer to note 32 "Other costs".

For information on lease payables, refer to note 19 "Borrowings from banks and other lenders".

9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(in thousands of euro)

	12/31/2019	Increase	Business combination	Amortisation	12/31/2020
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	**2,270,000**
Software licenses	**489**	357	-	(279)	**567**
Other intangible assets	**4,875**	276	-	(2,189)	**2,962**
Assets under construction	-	225	-	-	**225**
Total	**2,275,364**	**858**	**-**	**(2,468)**	**2,273,754**

(in thousands of euro)

	12/31/2018	Increase	Business combination	Amortisation	12/31/2019
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	**2,270,000**
Software licenses	**833**	-	-	(344)	**489**
Other intangible assets	**2,831**	2,111	1,912	(1,979)	**4,875**
Total	**2,273,664**	**2,111**	**1,912**	**(2,323)**	**2,275,364**

The Pirelli Brand (asset with indefinite useful life) for euro 2,270,000 thousand, originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo International Holding Italy S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite based on its history of over one hundred years of success (created in 1872) and the intention and ability of the Group to continue investing to support and maintain the brand.

The **increases** in the year mainly include costs for the purchase of application software (euro 218 thousand).

No impairment was carried out in 2020.

IMPAIRMENT TEST OF THE PIRELLI BRAND (ASSET WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand, amounting to euro 2,270,000 thousand, is an intangible asset with indefinite useful life and therefore not subject to amortisation, but, pursuant to IAS 36, to impairment annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at December 31, 2020 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the same revenue streams used for the purpose of impairment testing of goodwill in the consolidated financial statements, i.e., revenues lower than those in the plan, in order to take account of analysts' consensus estimates as external evidence; for the purposes of determining the recoverable value of the brand, given that the value configuration is Fair Value, the benefits deriving from expansion investments were not sterilized;
- evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equal to an average royalty rate of 4.62%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates envisaged in the outstanding contracts were used;
- discount rate of 8.34%, which includes a premium with respect to WAAC determined on the basis of the risk of the specific asset;
- growth rate "g" in the terminal value assumed to be zero;
- TAB (Tax Amortization Benefit), which is the tax benefit that could potentially benefit the market participant that acquired the asset separately due to the possibility of fiscally amortizing it.

For the purposes of the impairment test, the recoverable value of the Pirelli Brand *cum* TAB is compared with the respective carrying amount (*cum* TAB) and no impairment has emerged.

The recoverable value is higher than the carrying amount of the Brand (19.5%) while, in order for the Fair Value to be equal to the carrying amount, a worsening variation of the key parameters is necessary and in particular:

- decrease in the royalty rates of the Consumer valuation units of 77 basis points and the simultaneous cancellation of royalties from the license contract with Prometeon Tyre Group;
- increase in the discount rate of 144 basis points;
- a negative growth rate g of -265 basis points.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2020, this item amounted to euro 4,633,666 thousand compared to euro 4,647,666 thousand at December 31, 2019, and the breakdown is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
HB Servizi S.r.l.	230	230
Maristel S.p.A.	1,315	1,315
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Ltda	9,666	9,666
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3,238	3,238
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli Tyre S.p.A.	4,528,245	4,528,245
Pirelli UK Ltd.	7,871	21,871
Pirelli International Treasury S.p.A.	75,000	75,000
Servizi Aziendali Pirelli S.C.p.A.	100	100
Total investments in subsidiaries	**4,633,666**	**4,647,666**

Below are the changes during the year:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**4,647,666**	**4,568,324**
Increases	-	79,342
Write-downs	(14,000)	-
Closing balance	**4,633,666**	**4,647,666**

The company checks the recognised values of its investments and the existence of impairment indicators on the basis of as set out in paragraph 3 Accounting standards – Investments in subsidiaries and associates. Following the verification of the indicators, the subsidiaries on which it was necessary to carry out the test were Pirelli Tyre S.p.A., Pirelli UK Ltd and Pirelli Ltda.

With specific reference to the investment in the subsidiary Pirelli Tyre S.p.A., the carrying amount was compared to the recoverable value identified as the value in use, which was calculated starting from the value in use of Consumer Activities estimated for the purposes of the impairment test of goodwill in the consolidated financial statements, which represent the Pirelli Group as a whole, adjusted downwards for the recoverable value of the assets of Pirelli & C. S.p.A. other than the investment in Pirelli Tyre S.p.A. (for example the Pirelli brand) and activities that do not generate operating flows and that decrease the Net Financial Position of Pirelli Tyre S.p.A. There were no resulting impairment losses.

With specific reference to the investment in the subsidiary Pirelli UK Ltd, the carrying amount was compared to the recoverable value identified as the carrying amount of equity. The impairment test determined the need for an impairment of euro 14 million of the investment in Pirelli UK Ltd.

The impairment test of the investment in the subsidiary Pirelli Ltda did not give rise to impairment losses.

Further details are set out in the Annexes to the Explanatory Notes.

11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2020, this item amounted to euro 6,375 thousand, unchanged compared to December 31, 2019, and the breakdown is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Rome	6,271	6,271
Total investment in associates	**6,375**	**6,375**

No changes occurred during the year. Further details are set out in the Annexes to the Explanatory Notes.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE RECOGNISED IN THE OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME (FVOCI)

Other financial assets at fair value recognised in the other components of the statement of comprehensive income amounted to euro 41,074 thousand at December 31, 2020 (euro 57,203 thousand at December 31, 2019).

The breakdown of the item for each security is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Listed securities		
RCS Mediagroup S.p.A. - Milan	14,076	24,892
Unlisted securities		
Fin. Priv Srl	15,902	20,565
Fondo Comune di Investimento Immobiliare Anastasia	2,786	3,947
Istituto Europeo di Oncologia S.r.l.	7,962	7,465
Other companies	348	334
Total financial assets at fair value through other comprehensive income	**41,074**	**57,203**

The changes in the year are shown below:

(in thousands of euro)

	31/12/2019
Opening balance	**57,203**
Adjustment to fair value recognised in other comprehensive income	(16,129)
Closing balance	**41,074**

The **fair value adjustments in the other components of the statement of comprehensive income** mainly refer to the investments in RCS MediaGroup S.p.A. (negative for euro 10,816 thousand), in Fin.Priv. S.r.l. (negative for euro 4,663 thousand), in Fondo Comune di investimento Anastasia (negative for euro 1,161 thousand), in Istituto Euroopeo di Oncologia (positive for euro 497 thousand) and in Nomisma - Società di Studi Economici S.p.A. (positive for euro 13 thousand).

The fair value of listed securities corresponds to the stock market price at December 31, 2020. For unlisted securities and real estate funds, the fair value was estimated according to available information.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Other receivables from subsidiaries	2,307	-	2,307	2,554	-	2,554
Financial receivables from subsidiaries	3,151,544	2,000,000	1,151,544	2,317,507	-	2,317,507
Financial receivables from third parties	5,000	-	5,000	-	-	-
Guarantee deposits	267	267	-	268	268	-
Other receivables from third parties	3,705	308	3,397	11,212	352	10,860
Receivables from tax authorities for taxes not related to income	3,390	-	3,390	9,368	-	9,368
Financial accrued interest income	943	-	943	6,982	-	6,982
Financial prepaid expenses	160	-	160	681	-	681
Total other receivables	**3,167,316**	**2,000,575**	**1,166,741**	**2,348,572**	**620**	**2,347,952**

Financial receivables from subsidiaries include the current portion of the short-term use of a long-term credit line (maturity 31/1/2023) disbursed in favour of Pirelli International Treasury S.p.A. for an amount of euro 1,140 million, the receivable for interest accrued not yet paid on the same line for euro 9,923 thousand and the relation with Pirelli International Treasury S.p.A. relating to the interest-bearing current account, regulated at interest rates market for euro 1,622 thousand (at December 31, 2019 equal to euro 284,051 thousand).

The amount shown in non-current other financial receivables from subsidiaries refers to an existing loan with Pirelli International Treasury S.p.A. taken out on January 31, 2020 with maturity on January 31, 2023.

For the purposes of applying the IFRS 9 accounting standard in relation to loans to Group companies, management has made an estimate of the expected credit losses in the 12 months following the closing of the financial statements. The analysis takes into consideration qualitative, quantitative, historical and prospective information to determine whether the intra-group loan has a credit risk at December 31, 2020. Using a probability of default of a Pirelli & C. Group loan considering their equity-financial situation, the management of the company concluded that any impairment required by the standard would be of an insignificant amount.

Current financial receivables of euro 5,000 thousand refer to an escrow account established following the sale of a property, released in the first days of March.

Receivables from the tax authorities for taxes not related to income for euro 3,390 thousand mainly refer to receivables for VAT, which decreased compared to the previous year.

Accrued financial assets refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing “Facilities” granted to Pirelli & C. S.p.A.

Deferred financial assets relate mainly to the commissions on the revolving and term loan credit line.

The carrying amount of financial receivables and other receivables approximates their fair value.

14. TRADE RECEIVABLES

Trade receivables amounted to euro 80,568 thousand compared to euro 23,775 thousand of the previous year and the breakdown is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Receivables from subsidiaries	76,578	21,486
Receivables from associates	3	3
Receivables from other companies	4,630	2,906
Total receivables - gross amount	**81,211**	**24,395**
Provision for bad debt	(643)	(620)
Total receivables	**80,568**	**23,775**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousands of euro)

	12/31/2020	% of total trade receivables	12/31/2019	% of total trade receivables
EUR	74,625	92%	20,657	85%
USD (Dollar USA)	111	0%	-	0%
RUB (Ruble Russia)	1,556	2%	619	2%
CHF	4,919	6%	3,119	13%
Total	**81,211**	**100%**	**24,395**	**100%**

Receivables from subsidiaries at December 31, 2020 mainly include the amounts that Pirelli & C. S.p.A. charges for services rendered through Corporate functions and charge-backs of costs. The aforementioned receivables are due within the financial year and do not show past due balances of significant amount.

Receivables from other companies of euro 4,630 thousand (euro 2,906 thousand at December 31, 2019), shown gross of the provision for bad debts of euro 643 thousand, are past due for euro 1,566 thousand.

Past due receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management in the "Financial risk management policy".

Impaired receivables include both significant positions impaired separately, and positions with similar characteristics in terms of credit risk, grouped and impaired on a collective basis.

The change in the provision for bad debts is shown below:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**620**	**2,970**
Accruals	23	96
Utilizations/reversals	-	(2,446)
Closing balance	**643**	**620**

Accruals to the provision for bad debts are recognised in the income statement as "Impairment of financial assets" (Note 33).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2020, they amounted to euro 1,742 thousand, against euro 1,754 thousand at December 31, 2019 and refer to balances of bank accounts in euro repayable on demand.

The credit risk associated with cash and cash equivalents is to be considered limited because the counterparties are represented by leading national and international banking institutions.

It is believed that the value of cash and cash equivalents is in line with their fair value.

16. TAX RECEIVABLES

At December 31, 2020, they amounted to euro 32,676 thousand (euro 31,744 thousand at December 31, 2019).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for euro 31,369 thousand (euro 29,828 thousand at December 31, 2019). The increase compared to the previous year substantially depends on the greater contribution of the positive taxable result by the subsidiary Pirelli International Treasury S.p.A.;
- receivables for IRAP advances for euro 125 thousand (euro 925 thousand at December 31, 2019).

17. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. The breakdown is as follows:

(in thousands of euro)

	12/31/2020				12/31/2019			
	Non Current Assets	Current Assets	Non Current Liabilities	"Current Liabilities"	Non Current Assets	Current Assets	Non Current Liabilities	"Current Liabilities"
Without adoption of hedge accounting								
Forex instruments - trade positions	-	25	-	(5)	-	11	-	(5)
Forex instruments - included in net financial position	-	2,642	-	(13,226)	-	-	-	-
Derivatives for interest rate - included in net financial position	-	227	-	-	-	-	-	-
In hedge accounting								
- cash flow hedge:								
Derivatives for interest rate	-	-	(9,733)	-	449	-	(8,735)	-
Other derivatives instruments	-	-	(99,964)	-	29,820	10,143	(854)	-
Total derivative instruments	**-**	**2,894**	**(109,697)**	**(13,231)**	**30,269**	**10,154**	**(9,589)**	**(5)**

The above derivatives are intercompany derivatives stipulated mainly with the Group's treasury company, Pirelli International Treasury S.p.A.

DERIVATIVE FINANCIAL INSTRUMENTS NOT IN HEDGE ACCOUNTING

The value of **exchange rate derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the year. These are transactions that mirror Company commercial and financial transactions for which the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the reporting date.

The value of **interest rate derivatives** included in current assets refers to the fair value measurement of five IRS basis swaps USD for a total notional of USD 1,761 million starting September 2020 and duration of one year. These are hedging transactions of the basis 3 - 12 months following the change in the period of interest on the underlying liability from 3 months to 12 months, for which the hedge accounting option was not adopted. Through these IRS basis swaps, the Company pays Libor USD 3 months that nets the proceeds from the pre-existing CCIRS on one side, and collects Libor USD 12 months that will serve the interest flows on liabilities in USD liquidated on a quarterly basis with annual fixing on the other.

DERIVATIVE FINANCIAL INSTRUMENTS IN HEDGE ACCOUNTING

The value of **interest rate derivatives** recorded under current liabilities for euro 9,733 thousand refers to the fair value of 6 interest rate swap contracts with the following characteristics:

Instrument	Covered Item	Notional (in thousands of euro)	Start date	Deadline	Description
IRS	Term loan in Eur	250,000	June 2019	June 2022	receive fix / pay floating
IRS	Term loan in Eur	62,500	August 2019	August 2023	receive fix / pay floating
IRS	Term loan in USD + CCIRS	100,000	October 2019	June 2022	receive fix / pay floating
IRS	Schuldschein	180,000	July 2020	July 2023	receive fix / pay floating
IRS	Schuldschein	20,000	July 2020	July 2025	receive fix / pay floating
Total		**612,500**			

For these derivatives, cash flow hedge accounting was adopted. Items subjected to hedge accounting are:

- floating rate bank lines denominated in Euro, and the related future cash flows (see note 19 Borrowings from Banks and other lenders);
- the combination of a USD floating rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap).

The change in the fair value of the IRS for the year, negative for euro 3,770 thousand, was entirely suspended in equity, while in the income statement, euro 2,382 thousand was reversed to the item "financial expenses" (Note 36), correcting the financial expenses recognised on the liability hedged.

A +0.5% change in the EURIBOR curve, other things being equal, would result in a positive change of euro 5,361 thousand in the Company's shareholders' equity, while a -0.5% change in the same curve would result in a negative change of euro 5,456 thousand in the Company's shareholders' equity.

The value of **other derivatives**, recognised as non-current liabilities for euro 99,964 thousand, refers to the fair value measurement of 3 cross currency interest rate swaps with the following characteristics:

Instrument	Notional (in thousands of USD)	Start date	Deadline	Description
CCIRS	681,690	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR
CCIRS	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
Total	**1,761,032**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Company against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate, generated by a liability in USD at variable rate with a notional value of USD 1,761,032 thousand (see note 19 Payables to banks and other lenders).

The negative change in fair value for the year was suspended in equity for euro 110,056 thousand (cash flow hedge reserve negative for euro 114,739 thousand and cost of hedging reserve positive for euro 4,683 thousand), while euro 133,595 thousand was reversed to the income statement to offset unrealised exchange rate gains recognised on liabilities hedged and euro 20,047 thousand was instead reversed in the item "financial expenses" (Note 36), adjusting the financial expenses recognised on the liability hedged.

Other things being equal, a hypothetical increase and decrease of 0.50% of the EURIBOR and LIBOR curves would have respectively a positive net impact of euro 6,638 thousand and a negative net impact of euro 6,724 thousand on the shareholders' equity of the Company.

A +10% change in the USD/EUR exchange rate, all other conditions being equal, would result in a positive change of euro 378 thousand in the Company's equity and euro 338 thousand in the Income Statement; a negative 10% change, on the other hand, would entail a positive change of euro 307 thousand in the Company's equity and of euro 337 thousand on the Income Statement.

IRS and CCIRS hedging relationships are considered prospectively effective when the following conditions are met:

- there is an economic relationship between the hedging instrument and the hedged item, as the characteristics of the hedging instrument (nominal interest rate, interest rate reset and frequency of interest payment) are substantially aligned with those of the hedged item. As a result, changes in the fair value of the hedging instrument offset those of the hedged item on a regular basis;
- the effect of credit risk is not predominant within the hedging relationship: according to the Group's operating rules, derivatives are only traded with high standing bank counterparties and the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is in line with that used for financial risk management purposes and is 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which involves comparing the risk-adjusted fair value changes of the hedging instrument (except for those attributable to the currency basis spread) with the risk-free fair value changes of the hedged item, through the identification of a hypothetical derivative with the same characteristics as the underlying financial liability.

Possible causes of ineffectiveness are the following:

- application of credit risk adjustment only to the hedging instrument but not to the hedged item;
- the hedged item incorporates a floor that is not reflected in the hedging instrument;
- mismatch between the actual contractual terms of the future transaction and those of the hedging instrument.

During September 2020, in accordance with the terms and conditions of the loan agreement, the tenor of the reference rate of the hedged item was changed from USD Libor 1m to USD Libor 12m. The change in the tenor of the reference rate of the underlying loan resulted in an ineffectiveness due to the misalignment between the characteristics of the hedge item and the hedging instrument amounting to euro 338 thousand, which was recognised in the income statement under "financial expenses", within net expenses on derivatives (Note 36).

18. SHAREHOLDERS' EQUITY

Equity amounted to euro 4,651,056 thousand (euro 4,580,445 thousand at December 31, 2019).

The statement of changes in equity is shown in the main financial statements.
Equity went from euro 4,580,445 thousand at December 31, 2019 to euro 4,651,056 thousand at December 31, 2020. The positive change is essentially due to the net result for the year (positive for euro 43,956 thousand), the creation of a reserve to accommodate the equity component relating to the convertible bond (positive for euro 41,200), the adjustment to fair value of derivatives designated as cash flow hedges (positive for euro 1,599 thousand) and to the adjustment to fair value of financial assets at fair value recognised as other components of comprehensive income (negative for euro 16,129 thousand).

SHARE CAPITAL

The share capital at December 31, 2020, fully subscribed and paid-in, amounted to euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value and unchanged compared to December 31, 2019.

LEGAL RESERVE

The legal reserve at December 31, 2020 amounted to euro 380,875 thousand, unchanged compared to December 31, 2019, having already reached the limit set by article 2430 Civil Code.

SHARE PREMIUM RESERVE

At December 31, 2020, the share premium reserve amounted to euro 630,381 thousand and unchanged compared to December 31, 2019.

CONCENTRATION RESERVE

At December 31, 2020, concentration reserves amounted to euro 12,467 thousand and unchanged compared to December 31, 2019.

OTHER RESERVES

At December 31, 2020, other reserves amounted to euro 133,735 thousand (euro 92,535 thousand at December 31, 2019). The positive change is due to the reserve created to include in equity the component related to the fair value of the option sold to subscribers of the convertible bond loan issued during the year (positive for euro 41,200 thousand). Refer to Note 19.

IAS RESERVE

At December 31, 2020, the IAS reserves were negative for euro 17,744 thousand and refer to the reserve for the fair value adjustment recognised in the statement of comprehensive income (negative for euro 5,492 thousand), to the employee benefits remeasurement reserve (positive for euro 1,905 thousand) and the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for euro 14,157 thousand).

MERGER RESERVE

At December 31, 2020, the merger reserve amounted to euro 1,022,928 thousand, unchanged compared to December 31, 2019. The reserve was generated following the merger by incorporation of Marco Polo International Holding Italy S.p.A. in Pirelli & C. S.p.A. in 2016.

RESERVE FROM RESULTS CARRIED FORWARD

The reserve from results carried forward amounted to euro 540,084 thousand compared to a 266,842 at December 31, 2019. The increase is to be attributed to the allocation of the entire 2019 result to retained earnings as per the shareholders' resolution of June 18, 2020.

In accordance with the provisions of article 2427, no. 7-bis of the Italian Civil Code, in the following table each item of equity is indicated analytically, with indication of its origin, possibility of use and distributability, as well as of its use in previous years.

(in thousands of euro)

	Amount	Possible use	Available portion	Summary of reserves uses in the last 3 previous years
Share capital	1,904,375			
Share premium reserve	630,381	A, B, C	630,381	-
Legal reserve	380,875	B	380,875	-
Other reserves				
- Concentration reserve	12,467	A, B, C	12,467	-
- Convertible bond loan Reserve	41,200	A	41,200	-
- Other Reserves	92,535	A, B	92,535	-
- IAS Reserves	(17,744)	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	-
- Reserve from results carried forward	540,084	A, B, C	540,084	-
Total	**4,607,101**		**2,720,470**	**-**
Non distributable			514,610	
Residual quota available			2,205,860	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER LENDERS

The item borrowings from banks and other lenders, is broken down as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Not currents	Currents	Total	Not currents	Currents
Bonds	1,524,500	1,442,650	81,850	1,271,393	1,071,476	199,917
Borrowings from banks	3,336,716	3,136,716	200,000	2,921,413	2,469,318	452,095
Lease payables	49,708	43,929	5,779	38,226	35,479	2,747
Other financial payables	7,335	-	7,335	4,222	900	3,322
Accrued liabilities	12,386	-	12,386	20,208	-	20,208
Total borrowings from banks and other financial institutions	**4,930,645**	**4,623,295**	**307,350**	**4,255,462**	**3,577,173**	**678,289**

The item **bonds** refers:

- to the non-interest bearing senior unsecured guaranteed equity-linked bond loan for a nominal value of euro 500 million maturing December 22, 2025. The bond, reserved for institutional investors, issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A. and admitted to trading on the Vienna MTF, multilateral trading facility managed by the Vienna Stock Exchange. The bond loan is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the anti-dilutive adjustments envisaged by the loan regulations. The convertible bond loan is a compound financial instrument, consisting of (i) a five-year loan at market rates and (ii) a call option sold to the bond subscribers, represented by the right to convert the loan into new ordinary shares of the Company at a predefined price. In accordance with the reference accounting standards, the parent company Pirelli & C. S.p.A. has separately accounted for the two components of the loan, recording, against an issue value of euro 500 million (euro 492,9 million net of transaction costs), the fair value of the five-year loan (net of transaction costs) under financial payables, and the fair value of the call option sold (net of transaction costs) under equity reserves, to the amount of euro 451.7 million and euro 41.2 million, respectively;
- to the unrated bond, for a nominal amount of euro 553 million (originally euro 600 million partially repurchased for a total amount of euro 47 million during the last quarter of 2018) placed on January 22, 2018 with a fixed coupon of 1.375% and with an original maturity of 5 years. The bond, guaranteed by Pirelli Tyre S.p.A. and placed with international institutional investors, was issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
- to the floating rate (Euribor + spread) “Schuldschein” loan for a total nominal value of euro 525 million placed on July 26, 2018. The loan, and entered into by leading market operators, consists of a tranche of euro 82 million with 3-year maturity, a tranche of euro 423 million with 5-year maturity and a tranche of euro 20 million with 7-year maturity.

The carrying amount of bonds was determined to be as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Nominal value	1,578,000	1,278,000
Equity convertible bond component	(41,791)	-
Transaction costs	(15,133)	(7,683)
Bond discount	(2,988)	(2,988)
Non- monetary interest convertible bond loan	196	-
Amortisation of effective interest rate	6,216	4,063
Total	**1,524,500**	**1,271,392**

The breakdown of the item bonds is as follows:

(in thousands of euro)

Bonds as at 12/31/2019	**1,271,392**
Bond issues (Convertible bond)	500,000
Transactions costs	(8,041)
Bond repayments (EMTN program)	(200,000)
Reclassification of convertible option at issue date	(41,200)
Non-cash interest convertible bond	196
Amortised cost of the year	2,153
Bonds as at 12/31/2020	**1,524,500**

The following is the change in the item bonds for the previous year:

(in thousands of euro)

Bonds as at 12/31/2018	**1,269,514**
Amortised cost of the year	1,878
Bonds as at 12/31/2019	**1,271,392**

Borrowings from banks, amounting to euro 3,336,716 thousand, mainly refer to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for euro 1,620,578 thousand, classified under non-current payables. The nominal refinanced total subscribed to on June 27, 2017 (with a closing date of June 29, 2017), amounted to euro 2.45 billion (the net amount of repayments made since the date of signing – the original amount of the credit facility granted was euro 4.2 billion). The loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l. and Pirelli Pneus Ltda. On November 29, 2018, the loan was modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual 3-year and 5-year maturity. The lines of credit are denominated in euros and US dollars and carry a floating interest rate of Euribor + spread and Libor + spread, respectively;
- Sustainable Credit Line for euro 794,599 thousand relating to the credit line of euro 800 million at variable rate (Euribor + spread) stipulated on March 31, 2020 with a pool of leading Italian and international banks and with a 5-year maturity. The banking line is entirely sustainable, i.e., parametrised to the Group's economic and environmental sustainability objectives and guaranteed by Pirelli Tyre S.p.A.;
- euro 921,538 thousand relating to three bilateral loans disbursed to Pirelli & C. S.p.A. by leading banking institutions, of which nominal euro 600 million maturing in February 2024 at variable rate (Euribor + spread) and guaranteed by Pirelli Tyre S.p.A., euro 200 million maturing in September 2021 at fixed rate, and euro 125 million with maturity August 2023 at variable rate (Euribor + spread).

At December 31, 2020, the Company had a liquidity margin equal to euro 701,742 thousand composed of euro 700,000 thousand of unused committed credit lines, and euro 1,742 thousand in cash.

Below are the changes in borrowings from banks:

(in thousands of euro)

Borrowings from banks at 12/31/2019	**2,921,413**
Drawdown of unsecured financing (Facilities)	1,127,978
Reimbursements of unsecured financing (Facilities)	(1,342,297)
New bilateral borrowings	800,000
Transactions costs	(10,520)
Amortized cost for the period	11,124
Translation differences	(170,982)
Borrowings from banks at 12/31/2020	**3,336,716**

The change in total borrowings from banks for the previous year is shown below:

(in thousands of euro)

Borrowings from banks at 12/31/2018	**2,851,995**
Drawdown of unsecured financing (Facilities)	395,931
Reimbursements of unsecured financing (Facilities)	(1,097,498)
New bilateral borrowings	725,000
Transactions costs	(4,100)
Amortised cost of the year	14,182
Translation differences	35,903
Borrowings from banks at 12/31/2019	**2,921,413**

Lease liabilities represent financial liabilities relating to the application of IFRS 16 starting from January 1, 2019.

Below are the changes in lease liabilities:

(in thousands of euro)

Lease payables as at 12/31/2019	**38,226**
Increase of lease obligations	14,967
Remeasurement and early termination	541
Cash outflow for lease obligations - principal amount	(4,026)
Lease payables as at 12/31/2020	**49,708**

The change in total borrowings from banks for the previous year is shown below:

(in thousands of euro)

IFRS 16 first time adoption impact	**37,250**
Increase of lease obligations	1,277
Remeasurement and early termination	972
Cash outflow for lease obligations - principal amount	(1,273)
Lease payables as at 12/31/2019 (IFRS 16)	**38,226**

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain amounted to euro 50,144 thousand at December 31, 2020 and are not included in this item (euro 40,248 thousand at December 31, 2019).

The item **other financial payables** includes for euro 2,415 thousand the payable to shareholders following the squeeze out operation, for euro 4,000 thousand the short-term portion of bank fees on the sustainable credit line, for euro 900 thousand the short-term portion of the upfront fee on the “Bilaterale 600” loan, and for euro 20 thousand fees on sureties.

The item **accrued expenses** essentially refers to interest that has accrued on the term loans but has not yet been paid (euro 1,285 thousand) and to interest accrued on bonds for euro 8,990 thousand.

The carrying amount of current financial payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)

	12/31/2020		12/31/2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,442,650	1,465,120	1,071,476	1,084,830
Borrowings from banks	3,136,716	3,160,117	2,469,318	2,492,591
Lease payables	43,929	43,929	35,479	35,479
Other financial payables	-	-	900	900
Total borrowings from banks and other financial institutions - non current	**4,623,295**	**4,669,166**	**3,577,173**	**3,613,800**

The public bonds issued by Pirelli & C. S.p.A. are listed on an active market and the related fair value was measured with reference to its prices at the end of the year. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the "Schuldschein" loan and of current payables to banks was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 – Fair Value Measurement.

The distribution of payables to banks and other lenders by currency of origin of the payable at December 31, 2020 and December 31, 2019 is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
EUR	3.499.002	2.439.408
USD (Dollar USA)	1.431.643	1.816.054
Total	**4.930.645**	**4.255.462**

At December 31, 2020, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

Considering the effects of the above-mentioned hedging derivatives, the Company's exposure to changes in interest rates on its financial debt, in terms of both the type of interest rate and the date of resetting, breaks down as follows

- floating rate debt totaling euro 2,006,594 thousand, the interest rate on which is subject to renegotiation during 2021;
- fixed rate debt totaling euro 2,924,051 thousand, the interest rate on which is not subject to renegotiation until the natural maturity of the debt in question (euro 205,779 thousand falling due in the next twelve months and euro 2,718,272 thousand falling due beyond twelve months).

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.), (ii) the "Schuldschein" loan, (iii) the bilateral line of euro 600 million granted to Pirelli & C. in the first quarter of 2019 ("Bilaterale 600"), (iv) the bilateral line of euro 125 million granted to Pirelli & C. in the third quarter of 2019 ("Bilaterale 125") and (v) the "Linea di Credito Sustainable" entered into March 31, 2020, require compliance with a maximum ratio (Total Net Leverage) between net indebtedness and the gross operating margin as reported in the consolidated Financial Statements of Pirelli & C. S.p.A..

In all the loans indicated above, failure to comply with the financial covenant is identified as an event of default.

Specifically, this event of default will have the consequence, in cases of exercise of the relative remedies by the lending banks (i) as part of the Facilities, only if requested by a number of lending banks representing at least 66 2/3% of the total commitment, the early (partial or total) repayment of the loan with simultaneous cancellation of the related commitment; (ii) as part of the Schuldschein loan, individually and independently if requested by each lending bank for its portion, the early repayment of the loan only for said portion; (iii) as part of both the Bilateral 600 and Bilateral 125, if requested by the only bank that granted said loan, the termination of the contract and the early repayment for the entire amount disbursed; and (iv) as part of the Sustainable Credit Line, only if requested by a number of lending banks that represents at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

During the second quarter of 2020, the Group, in the new context strongly impacted by the Covid-19 emergency, deemed it prudent to proactively approach its main lenders and obtain additional flexibility for the emergency period (estimated until the end of 2021). The process was concluded with the support of all lenders who agreed to review the terms of existing loans including the financial covenant.

In relation to the above, it is noted that at December 31, 2020, no event of default or default has occurred.

The Facilities, the Schuldschein loan, the Bilateral 600, the Bilateral 125 and the Sustainable Credit Line also provide for Negative Pledge clauses and other usual provisions, the terms of which are in line with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at December 31, 2020 did not contain financial covenants.

NET FINANCIAL POSITION
(ALTERNATIVE PERFORMANCE INDICATOR NOT REQUIRED BY IFRS ACCOUNTING STANDARDS)

The table below shows the breakdown of the net financial position and net financial debt at December 31, 2020 and December 31, 2019, determined in accordance with the provisions of Consob communication DEM/6064293 of July 28, 2006 and in compliance with the ESMA/2013/319 Recommendations.

(in thousands of euro)

	Note	12/31/2020	*of which related parties (note 39)*	12/31/2019	*of which related parties (note 39)*
Current borrowings from banks and other financial institutions	19	307,350	-	711,021	-
Current derivative financial instruments (liabilities)	17	13,226	-	-	-
Non-current borrowings from banks and other financial institutions	19	4,623,295	-	3,544,441	-
Non-current derivative financial instruments (liabilities)	17	109,697	*109,697*	9,589	*9,589*
Total gross debt		**5,053,568**		**4,265,051**	
Cash and cash equivalents	15	(1,742)	-	(1,754)	-
Current financial receivables and other assets	13	(1,157,648)	*(1,152,488)*	(2,325,160)	*(2,324,489)*
Derivative financial instruments - assets	17	(2,869)	*(2,869)*	(10,154)	*(10,143)*
Net financial debt *		**3,891,309**		**1,927,983**	
Non-current financial receivables and other assets	13	(2,000,267)	*(2,000,000)*	(268)	-
Derivative financial instruments	17	-	-	(30,269)	*(30,269)*
Total net financial (liquidity)/debt position		**1,891,042**		**1,897,446**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations for the consistent implementation of the European Commission regulation on Prospectuses".

20. PROVISIONS FOR RISKS AND CHARGES

The following is a detail of changes of the item in question:

(in thousands of euro)

	12/31/2019	Increases	Uses	Reversals	12/31/2020
Provision for employees controversies	1,997	632	(563)	(152)	1,914
Provision for tax risks	1,141	-	-	-	1,141
Provision for environmental risks	627	1,180	(80)	-	1,727
Provision for other risks	36,566	3,450	(33,693)	-	6,323
Provision for liabilities and charges - non current portion	**40,331**	**5,262**	**(34,336)**	**(152)**	**11,105**
Closing balance	**40,331**	**5,262**	**(34,336)**	**(152)**	**11,105**

Increases mainly refer to provisions for environmental reclamation, labour disputes and end-of-term indemnity for directors.

The **uses** are mainly attributable to the payment of its share of the sanction in favour of the European Commission for euro 33.6 million; in this regard, it should be noted that on October 28, 2020, the Court of Justice of the European Union ultimately confirmed the legitimacy of the decision issued on April 2, 2014 by the European Commission at the conclusion of the antitrust investigation launched in relation to alleged restrictive conduct of competition in the European high voltage electrical cables market. This decision had imposed a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian) as directly involved in the cartel, of which a part (euro 67 million), Pirelli, despite having been found to not have been involved directly in the activities of said cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of parental liability, in that during part of the period of the infringement, the capital of Prysmian was directly or indirectly held by Pirelli. In this regard, Pirelli had provided the Commission (and at the latter's request) with a bank guarantee of euro 33.6 million (corresponding to 50% of the sanction imposed jointly on Prysmian and Pirelli) in addition to interest, and had consequently made the appropriate allocations. On December 31, 2020, Pirelli paid the aforementioned portion of the sanction in favour of the European Commission.

Reversals of excess funds are mainly related to the adjustment of provisions for labour disputes.

21. PERSONNEL PROVISIONS

Personnel provisions amounted to euro 10,912 thousand (euro 6,311 thousand at December 31, 2019), and the breakdown is as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non current	Current	Total	Non current	Current
Employee leaving indemnities (TFR)	2,518	2,518	-	2,672	2,672	-
Other benefits	8,394	5,946	2,448	3,639	1,605	2,034
Total employees' benefit obligation	**10,912**	**8,464**	**2,448**	**6,311**	**4,277**	**2,034**

EMPLOYEE SEVERANCE INDEMNITY (TFR)

The changes in the year 2020 for the employee severance indemnity are the following:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**2,672**	**1,077**
Movements through income statement:		
- current service cost	1,786	1,800
- interest expense	23	23
Remeasurements recognised in equity:		
- actuarial (gains) or losses arising from changes in financial assumption	18	96
- increase related to business combination	-	1,411
Indemnities, advance payments, relocations, payment to funds	(1,981)	(1,735)
Total employees' leaving indemnities (TFR)	**2,518**	**2,672**

The amounts recognised in the income statement are included in the item "Personnel Costs" (note 30).

Net actuarial gains accrued in 2020, recognised directly in equity, amounted to euro 18 thousand and are essentially related to the change in the economic parameters of reference (discount rate and inflation rate).

In accordance with national legislation, the amount due to each employee accrues based on the service provided and is paid when the employee leaves the company. The treatment due to the termination of the employment relationship is calculated based on its duration and the taxable remuneration of each employee. The liability, annually revalued on the basis of the official cost of living and statutory interest rate, is not associated with any accrual condition or period, nor with any financial funding obligation; therefore, there is no activity at the service of the provision.

The discipline was supplemented by Legislative Decree no. 252/2005 and by Law no. 296/2006 (Finanziaria 2007) which, for companies with at least 50 employees, has established that the portions accrued since 2007 be allocated, on the employees' option, either to the INPS Treasury Fund or to supplementary pension schemes, assuming the nature of "Defined contribution plan". In any case, for all companies, the revaluations of the amounts outstanding at the option dates are still accounted for under staff severance indemnities as well as, for companies with less than 50 employees, also the portions accrued and not allocated to supplementary pensions.

The principal actuarial assumptions used at December 31, 2020 are as follows:

(in thousands of euro)

	2020
Discount rate	0.6%
Inflation rate	1.0%

The main actuarial assumptions used at December 31, 2019 were as follows:

(in thousands of euro)

	2019
Discount rate	0.7%
Inflation rate	1.0%

Hired employees at December 31, 2020 amounted to 345 units (353 units at December 31, 2019).

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.81%, in the case of an increase (1.84% at December 31, 2019), and an increase in liabilities of 1.84%, in the case of a decrease (1.88% at December 31, 2019).

OTHER EMPLOYEE BENEFITS

The breakdown of other benefits is as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non current	Current	Total	Non current	Current
Long-term incentive plans	4,253	4,253	-	-	-	-
Jubilee awards	1,692	1,692	-	1,605	1,605	-
Other benefits	2,448	-	2,448	2,034	-	2,034
Total	**8,394**	**5,946**	**2,448**	**3,639**	**1,605**	**2,034**

The item **Long Term Incentive Plans** relates to the amount allocated for the three-year monetary Long Term Incentive 2020 - 2022 plan for Group management (to date around 260 participants) approved by the Board of Directors on February 19, 2020 and correlated with the 2020 - 2022 Business Plan figures presented on the same date. On the occasion of the figures as at 30 June 2020, in order to take account of the radical changes in the macroeconomic scenario, the Board of Directors instructed the Remuneration Committee to draw up a proposal to revise the incentive plan, aligning the targets with the new guidance for 2020 communicated to the market on the same date and with the targets of the new Business Plan for the years 2021 and 2022 approved by the Board of Directors on 31 March 2021.

The **other benefits** for euro 2,448 thousand refer to the portion attributable to December 31, 2020 of the fourth installment of the retention plan that will be paid in the first half of 2021. The plan was approved by the Board of Directors on February 26, 2018 and is intended for Key Managers and a selected number of senior Managers and Executives.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Payables to subsidiaries	2,815	4,562
Payables to associates	265	102
Payables to other companies	24,490	14,598
Total trade payables	**27,570**	**19,262**

The carrying amount of trade payables is considered to approximate their fair value.

23. OTHER PAYABLES

The breakdown of other payables is as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Payables to subsidiaries	5,997	-	5,997	11,515	-	11,515
Payables to social security and welfare institutions	3,810	-	3,810	3,193	-	3,193
Payables to employees	4,431	-	4,431	7,213	-	7,213
Other payables	11,370	538	10,832	9,593	211	9,382
Accrued liabilities	56	-	56	271	-	271
Deferred income	186	-	186	533	-	533
Total other payable	**25,850**	**538**	**25,312**	**32,318**	**211**	**32,107**

Payables to subsidiaries mainly refer to receivables related to VAT consolidation.

Payables to pension and social security institutions mainly consist of contributions to be paid to the INPS (National Social Welfare Institute).

Payables to employees refer to the remuneration to be paid to employees.

Other payables include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work.

For **other current payables** it is considered that the carrying amount approximates their fair value.

24. PROVISION FOR DEFERRED TAX LIABILITIES

The deferred tax provision amounted to euro 524,338 thousand at December 31, 2020 (euro 538,902 thousand at December 31, 2019).

The breakdown of the deferred tax provision gross of offsetting is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Deferred tax assets	**114,631**	**101,909**
- of which within 12 months	46,362	64,050
- of which over 12 months	68,269	37,859
Provision for deferred tax liabilities	**(638,969)**	**(640,811)**
- of which within 12 months	(5,639)	(1,842)
- of which over 12 months	(633,330)	(638,969)
Total	**(524,338)**	**(538,902)**

The breakdown of deferred tax assets related to temporary differences and tax losses carried forward is shown in the following table:

(in thousands of euro)

	12/31/2020	12/31/2019
Deferred tax assets		
Provision for risk and charges	1,533	665
Property, plant and equipment	-	65
Employees provision	2,202	1,037
Provision for bad debt	126	120
Tax losses carried forward	34,596	24,080
ACE Benefit	66,306	54,501
Interests	5,253	16,010
Derivatives	4,480	4,984
Other	135	446
Total deferred tax assets	**114,631**	**101,909**
Provision for deferred tax liabilities		
Pirellli Brand	(633,330)	(633,330)
Exchange differences not realised	(5,639)	(7,481)
Total provision for deferred tax liabilities	**(638,969)**	**(640,811)**
Total	**(524,338)**	**(538,902)**

At 31 December 2020, the value of unrecognised deferred tax assets relating to unlimited tax losses that can be carried forward was euro 25,294 thousand (euro 30,048 thousand at December 31, 2019), while those relating to temporary differences amounted to euro 25,856 thousand (unchanged from December 31, 2019).

The tax effect of gains and losses recognised directly in equity was negative for euro 500 thousand (positive for euro 2,557 thousand in 2019), and is disclosed in the Comprehensive income statement; these changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

25. TAX PAYABLES

These amounted to euro 11,985 thousand (euro 17,617 thousand at December 31, 2019) and mainly include payables to subsidiaries that adhere to the tax consolidation, which arose following the transfer of withholding taxes incurred abroad (WHT).

26. COMMITMENTS AND RISKS

LEASE CONTRACT COMMITMENTS

At December 31, 2020, there were no commitments for lease contracts not yet in force.

DISPUTES AGAINST PRYSMIAN GROUP COMPANIES BEFORE THE COURT OF MILAN

Pending the definition of the Community proceeding pursuant to Note 20 “Provision for risks and charges”, in November 2014, Pirelli & C. S.p.A. (“Pirelli”) took action before the Court of Milan in order to obtain the ascertainment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold it free from any claim relating to the alleged anti-competitive agreement in the energy cables sector, including the penalty imposed by the European Commission.

Prysmian Cavi e Sistemi S.r.l. appeared in the aforementioned judgement, requesting the rejection of Pirelli's claims, and as counter-claim, to be indemnified by Pirelli in relation to the consequences deriving from or related to the decision of the European Commission. The judgement had been suspended pending the definitive sentence of the EU judges and was resumed by Pirelli on November 30, 2020 following the sentence of the Court of Justice.

In October 2019, Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting the assessment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and release it from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the decision of the European Commission, as well as the consequent conviction of Prysmian Cavi e Sistemi S.r.l. to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

On this occasion, Pirelli also requested to ascertain the liability of Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. in relation to certain illegal conduct connected to the aforementioned anti-competitive agreement, carried out by the same and, as a result, the conviction to compensation for all damages suffered and being suffered by Pirelli.

Lastly, Pirelli requested the ascertainment and declaration of the joint liability of Prysmian S.p.A. with Prysmian Cavi e Sistemi S.r.l. in relation to the amounts that will be paid both in this new judgement and in the one in November 2014 and that may not be settled by the latter.

Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. appeared in the aforementioned judgement in November 2020, requesting the rejection of Pirelli's claims and, as counter-claim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from claims of private and/or public third parties relating, connected and/or consequential to the facts covered by the decision of the European Commission.

Based on accurate analyses supported by authoritative opinions from external lawyers, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2020.

OTHER DISPUTES IN RELATION TO THE EUROPEAN COMMISSION DECISION

In November 2015, some companies of the Prysmian Group notified Pirelli of proceedings for the recovery of damages before the High Court of Justice of London against them and other recipients of the European Commission Decision of April 2, 2014 by National Grid and Scottish Power, companies that claim to have been injured by the alleged cartel. Specifically, the companies of the Prysmian Group submitted a request to obtain from Pirelli and Goldman Sachs, based on the role of parent companies during the period of the cartel, to hold them harmless in respect of any obligations to pay any damages claims (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan, filed in November 2014, Pirelli challenged the lack of jurisdiction of the High Court of Justice of London claiming that, that any decision on the merits should be assigned to the Court previously referred to. In April 2016, the High Court of Justice, at the request of Pirelli and the companies of the Prysmian Group, suspended the proceedings until the final passing of judgement that will define the Italian judgement already pending.

In April 2019, Terna S.p.A. – Rete Elettrica Nazionale ("Terna") summoned Pirelli, three Prysmian Group companies and another recipient of the aforementioned European Commission decision, before the Court of Milan, to obtain compensation for the damage allegedly suffered as a result of the anti-competitive conduct, quantified by the plaintiff at euro 199.9 million. Pirelli appeared in court contesting the claims made by Terna and filing, like the other defendants and against them, a counter-claim in recourse for the denied case in which it was held jointly liable for the anti-competitive agreement.

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission decision, jointly agreeing with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. The proceeding was initiated before the Court of Amsterdam, which, with sentence of November 25, 2020, upholding the objection brought by Pirelli, excluded its jurisdiction against Pirelli itself In February 2021, the claimants appealed against said sentence before the Amsterdam Court of Appeal.

Based on accurate analyses supported by authoritative opinions from external lawyers, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2020, also considering their initial status.

INCOME STATEMENT

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amounted to euro 53,486 thousand for 2020 compared to euro 51,992 thousand in 2019 and the breakdown is as follows:

(in thousands of euro)

	2020	2019
Sales of services to subsidiaries	53,125	50,108
Sales of services to other companies	361	1,884
Total revenues from sales and services	**53,486**	**51,992**

Revenues from subsidiaries refer to services provided by the central functions.

28. OTHER INCOME

Other income amounted to euro 124,405 thousand in 2020 (euro 110,180 thousand in 2019), and the breakdown is as follows:

(in thousands of euro)

	2020	2019
Other income from subsidiaries	111,548	106,613
Other revenues from third parties	12,857	3,567
Other income from other companies	**124,405**	**110,180**

Other income from subsidiaries mainly include royalties paid by Group companies for the use of the brand (euro 57,610 thousand in 2020 compared to euro 71,730 thousand in 2019) and also include cost recovery and other revenues deriving from the charge-back of costs to Group companies.

Other revenues from other companies mainly include the gains deriving from the sale of the property located in Milan and land located in Settimo Torinese for approximately euro 8,000 thousand and the royalties paid by other companies for the use of the Pirelli brand (euro 1,370 thousand in 2020 compared to euro 1,645 thousand in 2019).

29. RAW MATERIALS AND CONSUMABLES USED

They amounted to euro 228 thousand in 2020 (euro 225 thousand in 2019) and include purchases of advertising material, fuels and various materials.

30. PERSONNEL COSTS

Personnel costs amounted to euro 49,952 thousand (euro 48,229 thousand in 2019), and the breakdown is as follows:

(in thousands of euro)

	2020	2019
Wages and salaries	35,441	33,886
Social security and welfare contributions	8,046	8,568
Employee leaving indemnities	1,901	1,933
Retirement and similar obbligations	563	533
Other costs	4,001	3,309
Total	**49,952**	**48,229**

The item **other costs** includes this includes the portion of the retention plan (euro 3,297 thousand in 2020 and euro 2,597 thousand in 2019) that was approved by the Board of Directors on February 26, 2018 and intended for Managers with strategic responsibilities and a selected number of senior Managers and Executives.

The average staff headcount is the following:

- → Executives 80
- → White collars 260
- → Workers 6

31. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The breakdown of the item is as follows:

(in thousands of euro)

	2020	2019
Amortisation - intangible assets	2,468	2,324
Depreciation - property, plant and equipment (excl. Depreciation of Right of Use)	1,817	1,907
Depreciation of right of use	5,631	4,023
Total depreciation, amortisation and impairments	**9,916**	**8,254**

For the breakdown of the amortisation of the rights of use, see note 9.2 - Rights of use.

32. OTHER COSTS

The breakdown of other costs is the following:

(in thousands of euro)

	2020	2019
Advertising and sponsorship	59,806	38,625
Consultancy and collaboration services	12,580	11,204
Accruals to provisions (net of reversals)	2,212	77
Legal and notarial expenses	762	835
Travel expenses	2,734	4,013
Remuneration of Directors and supervisory bodies	7,548	7,086
Membership fees and contributions	2,272	2,418
Rental and lease instalments	969	1,202
IT expenses	5,674	6,327
Energy, gas and water expenses	1,271	1,351
Security service	1,856	2,474
Insurance premiums	2,896	2,594
Patents and trademarks expenses	874	1,198
Cleaning and property ordinary maintenance expenses	444	750
Property maintenance	1,829	683
Other	4,941	8,681
Total other costs	**108,668**	**89,518**

The item **Advertising and sponsorships** increased from 2019 due to non-discretionary sponsorship costs for event cancelled or with reduced visibility due to Covid-19.

The item **Leases and rentals** includes costs relating to the application of the accounting standard IFRS 16, in particular:

- euro 661 thousand for lease contracts with a duration of less than twelve months (euro 980 thousand at December 31, 2019);
- euro 197 thousand for lease contracts for low unit value assets (euro 208 thousand at December 31, 2019);
- euro 111 thousand for lease contracts with variable fees (euro 14 thousand at December 31, 2019) and refers to the positive effect of changes in payments for lease contracts due to reductions in permanent (rent holidays) or temporary lease fees related to Covid-19 (euro 111 thousand) that was recognised directly in the income statement as the Group made use of the practical expedient envisaged by the amendments to IFRS 16.

33. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for euro 23 thousand, mainly includes the net impairment of trade receivables. At December 31, 2019, the net impairment of trade receivables amounted to euro 97 thousand.

34. RESULT FROM INVESTMENTS

34.1. GAINS FROM INVESTMENTS

They were almost nil in 2020 compared to euro 2 thousand in 2019, which referred to the sale of 1,014 shares of Servizi Aziendali Pirelli S.c.p.A. to Pirelli International Treasury S.p.A.

34.2. LOSSES FROM INVESTMENTS

Losses from investments amounted to euro 14,000 thousand in 2020 and refer to the impairment of the investment in the subsidiary Pirelli UK Ltd. No losses on equity investments were recognised in 2019.

34.3 DIVIDENDS

They amounted to euro 53,650 thousand in 2020 compared to euro 268,903 thousand in 2019, and the breakdown is as follows:

(in thousands of euro)

	2020	2019
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	50,000	250,000
- Pirelli Group Reinsurance Company SA - Switzerland	-	13,342
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italy	200	200
- Pirelli Sistemi Informativi S.r.l. - Italy	1,050	300
- Pirelli International Treasury S.p.A. - Italy	2,400	-
From other financial assets:		
- RCS S.p.A. - Italy	-	1,482
- ECA Ltd - United the Kingdom	-	10
- Fin. Priv. S.r.l. - Italy	-	957
- Genextra S.p.A. - Italy	-	178
- Fondo Anastasia - Italy	-	2,434
Total	**53,650**	**268,903**

The lower amount of dividends from subsidiaries received in fiscal 2020 compared to fiscal 2019 is primarily attributable to lower dividends distributed by the subsidiary Pirelli Tyre S.p.A., which, in view of the pandemic, resolved to allocate a large portion of the profits earned during the year to its own capital strengthening.

35. FINANCIAL INCOME

The breakdown of the item is as follows:

(in thousands of euro)

	2020	2019
Interest	31,075	39,723
Other financial income	11	32
Net gains on exchange rates	37,067	519
Total financial income	**68,153**	**40,274**

Interest refers to interest accrued on loans granted in 2020 to subsidiaries.

Net exchange rate gains of euro 37,067 in 2020 (euro 519 thousand in 2019) refer to the adjustment to the year-end exchange rate of the items expressed in the currency other than the functional one still in effect at the closing date of the Financial Statements and the net profits on items closed during the year.

They also include the unrealised exchange rate gains recorded on the liability hedged by cross currency interest rate swaps, for which cash flow hedge accounting was adopted for euro 133,595 thousand. These exchange rate gains are presented net of losses of the same amount relating to the exchange rate component of the fair value measurement of the aforementioned derivatives.

36. FINANCIAL EXPENSES

The breakdown of the item is as follows:

(in thousands of euro)

	2020	2019
Interest and other financial expenses	65,763	59,712
Commissions	2,241	2,736
Interest expenses on lease liability	1,725	1,421
Net interest on employee benefit obligations	28	36
Net losses on derivative financial instruments	34,781	120
Total financial expenses	**104,538**	**64,025**

Interest and other financial expenses for a total of euro 65,763 thousand mainly include:

- euro 63,320 thousand for the bank loan lines held by Pirelli & C. S.p.A.;
- euro 15,059 thousand of financial expenses related to bonds, of which euro 9,658 thousand related to unrated bonds, euro 5,175 thousand related to the “Schuldschein” loan and euro 226 thousand of notional interest relating to the convertible bond issued in December 2020;
- net of euro 16,781 thousand for net interest income on the Cross Currency Interest Rate Swap and Interest Rate Swaps to adjust the flow of interest expense of the bank lines and bonds referred to in the previous points.

For further details, refer to as reported in Note 17 “Derivative financial instruments”.

Net expenses on derivatives refer to forward purchases/sales of foreign currencies to hedge the payables in foreign currency of the Company, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. The fair value measurement includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net revenue of euro 2,455 thousand, and the exchange rate component, a net cost of euro 170,831 thousand. The exchange rate component of the fair value measurement of cross currency interest rate swaps, for which cash flow hedge accounting was adopted, negative for euro 133,595 thousand, was reclassified to the item net exchange rate gains, to offset unrealised exchange rate gain recorded on the hedged liability.

Comparing net exchange rate gains, equal to euro 37,067 thousand, with the exchange rate component of net gains on derivatives, net of the aforementioned reclassification (euro 37,236 thousand), the difference is immaterial and shows that the positions at exchange risk have been hedged in line with Group policies.

37. TAXES

The breakdown of taxes is as follows:

(in thousands of euro)

	2020	2019
Current taxes	(16,523)	(26,120)
Deferred taxes	(15,064)	13,882
Total income taxes	**(31,587)**	**(12,238)**

Current taxes for the year 2020 were positive for euro 16,523 thousand compared to euro 26,120 thousand in the previous year and mainly include income from tax consolidation. The reduction compared to the previous year is essentially attributable to the lower taxable income of the subsidiary Pirelli Tyre.

Deferred tax assets were positive for euro 15,064 thousand and mainly refer to the recognition of deferred tax assets on the ACE benefit and on previous tax losses.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousands of euro)

	2020	2019
A) Profit/(loss) before taxes	**12,369**	**261,004**
B) Theoretical taxes	**2,968**	**62,641**
Main causes that give rise to changes between theoretical and effective taxes:		
Tax incentives	-	(5,736)
Dividends and gains from investments not subject to taxation	(12,232)	(60,755)
Loss on investments	3,360	-
Non-deductible costs	1,179	1,305
Uses losses previous years not activated	(4,431)	(1,007)
Deferred tax assets on previous tax losses and other temporary differences	(11,805)	(8,686)
Taxes relating to previous years	(10,626)	-
C) Effective taxes	**(31,587)**	**(12,238)**
Theoretical tax rate (B/A)	24%	24%
Effective tax rate (C/A)	-255.4%	-4.7%

TAX CONSOLIDATION

It shall be noted that starting from 2004, the Company exercised the option for consolidated taxation as consolidator, pursuant to article 117 and following of the TUIR, with regulation of relations arising from adhesion to consolidation through a special "Regulation", which involves a common procedure for the application of laws and regulations.

Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.

The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to the consolidation. The adoption of the consolidation makes it possible to compensate, with regard to the parent company Pirelli & C. S.p.A., the taxable income or loss of the same parent company with those of its resident subsidiaries which have exercised the option, given that the tax losses accrued during periods prior to the introduction of Group taxation can be used by those companies which are eligible.

38. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM/6064293 of July 28, 2006, no non-recurring events were recognised in 2020.

39. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties mainly include transactions with subsidiaries related to:

- → services (technical, organisational, general) provided by the headquarters;
- → royalties for the use of the brand.
- → financial transactions.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and its subsidiaries.

Transactions with related parties also included the fees paid to Directors and Key Managers.

The statement below shows a summary of the Statement of Financial Position and the Income Statement that include transactions with related parties and their impact.

(in thousands of euro)

	12/31/2020	*of which related parties*	% share	12/31/2019	*of which related parties*	% share
BALANCE SHEET						
Non current assets						
Other receivables	2,000,575	*2,000,000*	100.0%	620	-	0.0%
Derivative financial instruments	-	-	0.0%	30,269	*30,269*	100.0%
Current assets						
Trade receivables	80,568	*76,655*	95.1%	23,775	*21,725*	91.4%
Other receivables	1,166,741	*1,154,823*	99.0%	2,347,952	*2,327,043*	99.1%
Tax receivables	32,676	*31,369*	96.0%	31,744	*29,830*	94.0%
Derivative financial instruments	2,894	*2,894*	100.0%	10,154	*10,154*	100.0%
Non-current liabilities						
Other payables	538	*212*	39.3%	212	*212*	100.0%
Provision for liabilities and charges	11,105	*5,926*	53.4%	40,331	*3,065*	7.6%
Employee benefit obligations	8,464	*1,349*	15.9%	4,277	-	0.0%
Derivative financial instruments	109,697	*109,697*	100.0%	9,589	*9,589*	100.0%
Current liabilities						
Payables to banks and other financial lenders	307,350	*2,084*	0.7%	678,289	*252*	0.0%
Trade payables	27,570	*3,080*	11.2%	19,262	*4,771*	24.8%
Other payables	25,312	*6,576*	26.0%	32,107	*14,565*	45.4%
Employee benefit obligations	2,448	*1,698*	69.4%	2,034	*1,100*	54.1%
Tax payables	11,985	*11,757*	98.1%	17,617	*17,388*	98.7%
Derivative financial instruments	13,231	*13,231*	100.0%	5	*5*	100%

(in thousands of euro)

	2020	*of which related parties*	% share	2019	*of which related parties*	% share
INCOME STATEMENT						
Revenues from sales and services	53,486	*53,337*	99.7%	51,992	*50,823*	97.8%
Other income	124,405	*111,603*	89.7%	110,180	*106,726*	96.9%
Personnel expenses	(49,952)	(8,909)	17.8%	(48,229)	(5,571)	11.6%
Other costs	(108,668)	(20,457)	18.8%	(89,518)	(22,315)	24.9%
Income on equity investments	-	-	0.0%	2	*2*	100.0%
Losses on equity investments	(14,000)	*(14,000)*	100.0%	-	-	0.0%
Dividends	53,650	*53,650*	100.0%	268,903	*263,842*	98.1%
Financial income	68,153	30,994	45.5%	40,274	39,706	98.6%
Financial expenses	(104,538)	*(34,838)*	33.3%	(64,025)	*51,507*	-80.4%

TRANSACTIONS WITH RELATED PARTIES

The tables below shows the main equity transactions with related parties for the years ended December 31, 2020 and December 31, 2019.

(in thousands of euro)

	Subsidiaries	Associates	Other related parties	Total 12/31/2020
Other non current receivables	2,000,000	-	-	2,000,000
Trade receivables	76,578	3	74	76,655
Other current receivables	1,154,823	-	-	1,154,823
Tax receivables	31,369	-	-	31,369
Derivative financial instruments (current assets)	2,894	-	-	2,894
Other payables (Non-current liabilities)	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	5,926	5,926
Employee benefit obligations (Non-current liabilities)	-	-	1,349	1,349
Derivative financial instruments (Non-current liabilities)	109,697	-	-	109,697
Payables to banks and other lenders (current liabilities)	2,084	-	-	2,084
Trade payables	2,815	265	-	3,080
Other payables (current liabilities)	5,929	-	647	6,576
Employee benefit obligations (current liabilities)	-	-	1,698	1,698
Tax payables	11,757	-	-	11,757
Derivative financial instruments (current liabilities)	13,231	-	-	13,231

(in thousands of euro)

	Subsidiaries	Associates	Other related parties	Total 12/31/2019
Trade receivables	21,486	3	236	21,725
Other current receivables	2,327,043	-	-	2,327,043
Tax receivables	29,830	-	-	29,830
Derivative financial instruments (current assets)	10,154	-	-	10,154
Derivative financial instruments (Non-current assets)	30,269	-	-	30,269
Other payables (Non-current liabilities)	-	-	212	212
Provision for liabilities and charges (Non-current liabilities)	-	-	3,065	3,065
Derivative financial instruments (Non-current liabilities)	9,589	-	-	9,589
Payables to banks and other lenders (current liabilities)	252	-	-	252
Trade payables	4,562	102	107	4,771
Other payables (current liabilities)	11,698	-	2,867	14,565
Employee benefit obligations (current liabilities)	-	-	1,100	1,100
Tax payables	17,388	-	-	17,388
Derivative financial instruments (current liabilities)	5	-	-	5

Other non-current receivables amounted to euro 2,000,000 thousand (zero at December 31, 2019) and refer to credit lines granted to Pirelli International Treasury S.p.A., maturity 2023.

Trade receivables amounted to euro 76,655 thousand (euro 21,725 thousand at December 31, 2019) and mainly refer to receivables for services/provisions provided to Group companies (euro 68,060 thousand from Pirelli Tyre S.p.A., euro 4,919 thousand from Pirelli Group Reinsurance Company SA, euro 1,667 thousand from Limited Liability Company Pirelli Tyre Russia, euro 980 thousand from Pirelli Tyre Co. Ltd., euro 400 thousand from Pirelli Tyre Trading (Shanghai) Co).

Other related parties include trade relations with the Prometeon Group for euro 74 thousand.

Other current receivables amounted to euro 1,154,823 thousand (euro 2,327,043 thousand at December 31, 2019) and mainly refer for euro 1,622 thousand to the intra-group current account with Pirelli International Treasury S.p.A., euro 1,149,923 thousand to the loan including accrued interest granted to Pirelli International Treasury S.p.A., euro 983 thousand to the accrued asset towards Pirelli International Treasury S.p.A. on the hedging transactions of the Cross Currency Interest Rate Swap in place at December 31, 2020, euro 2,307 thousand to the VAT receivables transferred to the consolidation (euro 1,705 thousand from Pirelli Industrie Pneumatici S.r.l., euro 353 thousand from Pirelli Sistemi Informativi S.r.l., euro 247 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Tax receivables amounted to euro 31,369 thousand (euro 29,830 thousand at December 31, 2019) and refer to receivables from Group companies that adhere to tax consolidation (mainly euro 20,697 thousand from Pirelli Tyre S.p.A., euro 679 thousand from Pirelli Industrie Pneumatici S.r.l., euro 9,083 thousand from Pirelli International Treasury S.p.A.).

Derivative financial instruments (current assets) for euro 2,894 thousand (euro 10,154 thousand at December 31, 2019) refer to hedging transactions with Pirelli International Treasury S.p.A..

Provisions for risks and charges (non-current liabilities) include long-term benefits of euro 1,962 thousand, relating to the three-year monetary Long Term Incentive Plan 2020-2022 and the Directors' severance indemnity of euro 3,964 thousand.

Employee benefit obligations (non-current liabilities) include long-term benefits of euro 1,349 thousand, relating to the three-year monetary Long Term Incentive Plan 2020-2022 and regarding Key Managers.

The amount of euro 109,697 thousand (euro 9,589 thousand at December 31, 2019) of **derivative financial instruments (non-current liabilities)** refers to the fair value measurement of the cross currency interest rate swap (euro 99,964 thousand) and IRS (euro 9,733 thousand) with Pirelli International Treasury S.p.A..

Payables to banks and other lenders (current) amounted to euro 2,084 thousand (euro 252 thousand at December 31, 2019) and mainly refer to the accrued liability to Pirelli International Treasury S.p.A. on the hedging transactions of the existing interest rate swap at December 31, 2020.

Trade payables amounted to euro 3,080 thousand (euro 4,771 thousand at December 31, 2019) and mainly refer to payables for the provision of services. These payables mainly refer for euro 2,466 thousand to Pirelli Tyre S.p.A. and for euro 735 thousand to HB Servizi S.r.l..

Trade payables to associated companies refer to the Consortium for the Research of Advanced Materials (Consorzio per la Ricerca di Materiali Avanzati - CORIMAV).

Other payables (current liabilities) amounted to euro 6,576 thousand (euro 11,895 thousand at December 31, 2019) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are: euro 5,653 thousand to Pirelli Tyre S.p.A., euro 74 thousand to Driver Servizi Retail S.p.A..

The item **Employee benefit obligations (current liabilities)** includes the portion pertaining to December 31, 2020 of the fourth installment of the retention plan referring to Key Managers.

Tax payables amounted to euro 11,757 thousand (euro 17,388 thousand at December 31, 2019) and refer to payables to subsidiaries that adhere to tax consolidation (euro 10,491 thousand Pirelli Tyre S.p.A., euro 1,182 thousand Pirelli International Treasury S.p.A.).

The amount of euro 13,231 thousand (euro 5 thousand at December 31, 2019) of **derivative financial instruments – current liabilities** refers to hedging transactions with Pirelli International Treasury S.p.A..

TRANSACTIONS WITH RELATED PARTIES

The tables below show the main financial transactions with related parties for the years 2020 and 2019.

(in thousands of euro)

	Subsidiaries	Associates	Other related parties	Total 2020
Revenues from sales and services	53,125	-	212	53,337
Other income	111,548	-	55	111,603
Personnel expenses	-	-	(8,909)	(8,909)
Other costs	(12,423)	(265)	(7,769)	(20,457)
Losses from investments	(14,000)	-	-	(14,000)
Dividends	53,650	-	-	53,650
Financial income	30,994	-	-	30,994
Financial expenses	(34,838)	-	-	(34,838)

(in thousands of euro)

	Subsidiaries	Subsidiaries	Other related parties	Total 2019
Revenues from sales and services	50,108	-	715	50,823
Other income	106,613	-	113	106,726
Personnel expenses	-	-	(5,571)	(5,571)
Other costs	(14,399)	(270)	(7,646)	(22,315)
Dividends	263,842	-	-	263,842
Financial income	39,706	-	-	39,706
Financial expenses	51,507	-	-	51,507

Revenues from sales and services amounted to euro 53,337 thousand in 2020 (euro 50,823 thousand in 2019) and mainly refer to service contracts. The main transactions with subsidiaries are: euro 51,606 thousand with Pirelli Tyre S.p.A., euro 658 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 262 thousand with Pirelli International Treasury S.p.A.. Transactions with other related parties refer to the service/provisions contract with Prometeon Tyre Group S.r.l..

Other income for euro 111,603 thousand in 2020 (euro 106,726 thousand in 2019) mainly refer to: royalties (euro 55,924 thousand with Pirelli Tyre S.p.A., euro 1,665 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (euro 50,220 thousand from Pirelli Tyre S.p.A., euro 1,836 thousand from Pirelli Group Reinsurance Company SA, euro 645 thousand from Pirelli Tire LLC, euro 384 thousand from Pirelli Tyre Co.Ltd.); lease contracts (euro 113 thousand with Pirelli Sistemi Informativi S.r.l.).

The amount recorded under other related parties for euro 55 thousand mainly refers to service contracts with Camfin S.p.A. (euro 31 thousand), and with Marco Tronchetti Provera & C. S.p.A. (euro 23 thousand).

The item **personnel expenses** includes the emoluments related to key managers.

Other costs for euro 20,457 thousand in 2020 (euro 22,315 thousand in 2019) mainly refer to charges for services and miscellaneous costs (euro 4,150 thousand HB Servizi S.r.l., euro 3,360 thousand Pirelli Sistemi Informativi S.r.l., euro 2,930 thousand Pirelli Tyre S.p.A., euro 992 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

The amount recorded under associates refers to relations with the Consortium for Research on Advanced Materials – Corimav.

The amounts recorded under other related parties refer to the remuneration of directors and key managers for euro 5,507 thousand.

The item **losses from investments** shows the impairment of the investment of Pirelli UK Ltd.

Dividends for euro 53,650 thousand in 2020 (euro 263,842 thousand in 2019) refer to dividends collected during the year (euro 50,000 thousand from Pirelli Tyre S.p.A., euro 1,050 thousand from Pirelli Sistemi Informativi S.r.l., euro 2,400 thousand from Pirelli International Treasury S.p.A. and euro 200 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Financial income for euro 30,994 thousand in 2020 (euro 39,706 thousand in 2019) refers to interest income on receivables from Pirelli International Treasury S.p.A. (euro 27,661 thousand) and Pirelli Tyre S.p.A. (euro 3,333 thousand).

Financial expenses of euro 34,838 thousand in 2020 (positive for euro 51,507 thousand in 2019) mainly refer to net expenses on derivatives with Pirelli International Treasury S.p.A..

BENEFITS FOR KEY MANAGERS

At December 31, 2020, remuneration payable to key managers amounted to euro 16,378 thousand. The portion relating to employee benefits was recognised in the Income Statement item “personnel costs” for euro 8,909 thousand. The difference, equal to euro 7,469 thousand and mainly related to directors’ fees, is recognised in the Income Statement item “other costs”. The remuneration also includes euro 1,038 thousand relating to employee severance indemnity and end-of-term indemnity (euro 1,332 thousand at December 31, 2019), as well as short-term benefits for euro 3,750 thousand (euro 3,919 thousand at December 31, 2019) and long-term benefits for euro 3,311 thousand.

40. ADDITIONAL INFORMATION

DIRECTORS AND AUDITORS’ FEES

The fees due to Directors of Pirelli & C. S.p.A. amounted to euro 5,467 thousand in 2020. The fees due to the Auditors for the function performed at Pirelli & C. S.p.A. amounted to euro 315 thousand in 2020.

INDEPENDENT AUDITORS’ FEES

Pursuant to applicable regulations, the following table shows the fees pertaining to 2020 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A.:

(in thousands of euro)

	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		20%
Independent certification services [1]	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		40%
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		40%
				379	100%

[1] the item “independent certification services” includes amounts paid for other services that envisage the issuance of an auditor’s report as well as amounts paid for the so called certification services since they create synergies with the auditing services.

DISCLOSURE REQUESTED BY LAW NO. 124/2017 ARTICLE 1 PARAGRAPHS 125-129

There is no information to highlight pursuant to the legislation in question referring to Pirelli & C. S.p.A. for 2020.

Any information referring to the subsidiaries of Pirelli & C. S.p.A. are included in the consolidated financial statements.

41. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication no. 6064293 of July 28, 2006, the Company certifies that no atypical and/or unusual transactions as defined in said Communication were carried out in 2020.

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In **January and February 2021**, Pirelli repaid in advance some debt maturities scheduled for 2021 and 2022 for a total of euro 838 million. In particular, a tranche of the "Schuldschein" loan with original maturity on July 31, 2021 for euro 82 million and part of the unsecured loan ("Facilities") for euro 756 million with original maturity in 2022 were repaid. The repayments, for which part of the liquidity collected in 2020 was used, make it possible to reduce financial expenses, thus optimising the financial structure of the debt.

On **February 25, 2021**, Pirelli communicated the terms of the termination, with effect from February 28, 2021, of the employment relationship with the co-CEO General Manager Angelos Papadimitriou, already announced to the market on **January 20, 2021**.

In accordance with the current Remuneration Policy of the Pirelli Group, Mr. Papadimitriou was recognised by the Board of Directors, in addition to the amounts due by way of remuneration and other employment law services accrued up to the date of termination: (i) 10 months of gross annual remuneration as an incentive to retirement, equal to the value of the expected indemnity in lieu of the notice, based on the conventional seniority recognised at the time of hiring as executive, to be paid by April 20, 2021; (ii) euro 100,000 gross as a general novative settlement, to be paid once the termination is defined in accordance with the current employment law procedures, by April 20, 2021 as well as the maintenance until December 31, 2021 of some non-monetary benefits attributed at the time of hiring as executive. As envisaged at the time of hiring, subject to the suspensive condition of the approval of the 2021 Remuneration Policy by the shareholders' meeting, Mr. Papadimitriou will remain bound, for two years following the termination of the office of Director, to a non-competition agreement, valid for the main countries in which Pirelli operates, against a fee, for each year of validity, equal to 100% of the gross annual remuneration, to be paid in 8 deferred quarterly installments starting from July 1, 2021; the non-competition agreement includes a non-solicit clause as well as penalties in the event of violation of the obligations deriving from the non-competition agreement.

On **March 24, 2021**, in order to provide support for the execution of the Industrial Plan, the Executive Vice Chairman and CEO, Marco Tronchetti Provera, decided to propose the appointment of Giorgio Luca Bruno to the office of Deputy-CEO, which reports directly to him.

This proposal - shared with the Chairman of the Board of Directors, Ning Gaoning, and the Nominations and Successions Committee, whose Directors were informed - aims also at strengthening the management team in view of the future succession path in-line with the Procedure already adopted by the Company, and provides that the Deputy-CEO may also contribute to the development of internal management. The Executive Vice Chairman and CEO will therefore propose on March 31, to the Board of Directors, to invite the Shareholders' Meeting scheduled for June 15, 2021, to appoint Giorgio Luca Bruno as a Director, and will also propose that once appointed as a Director, he assumes the role of Deputy-CEO.

Following the proposal, Angelos Papadimitriou renounced his candidacy for Director. Therefore, the Shareholders' Meeting, which **met on the same date** with, amongst other things, his reappointment on the Agenda, decided to postpone the appointment of a new Director until June 15, which the Board of Directors will nominate in the person of Giorgio Luca Bruno. Angelos Papadimitriou, who had previously been co-opted, has therefore ceased to be a Director. The Shareholders' Meeting, also approved, during an extraordinary session, the convertibility of the *"euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"*, issued on December 22, 2020, as well as approved a divisible share capital increase, with the exclusion of option rights, to service the conversion of the aforementioned bond, for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235, this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. ordinary shares (notwithstanding that the maximum number of Pirelli & C. ordinary shares could increase on the basis of the effective conversion ratio applicable from time to time).

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Business Plan, which was presented to the financial community on the same date. For further information, reference should be made to the section "Outlook for the five-year period" in the Directors' Report on Operations.

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2019 TO 12/31/2020

(in thousands of euro)

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN SUBSIDIARIES										
ITALY										
Unlisted:										
Pirelli Servizi Amministrazioni e Tesoreria S.p.A. - Milan	2,047,000	3,237	100	100	-	-	2,047,000	3,237	100	100
Maristel S.r.l. - Milan	1 share	1,315	100	100	-	-	1 share	1,315	100	100
Pirelli International Treasury SpA - Milan	37,500,000	75,000	100	30	-	-	37,500,000	75,000	100	30
Pirelli Sistemi Informativi S.r.l. - Milan	1 share	1,656	100	100	-	-	1 share	1,656	100	100
Pirelli Tyre S.p.A. - Milan	558,154,000	4,528,245	100	100	-	-	558,154,000	4,528,245	100	100
Servizi Aziendali Pirelli S.C.p.A. - Milan	92,950	100	100	90	-	-	92,950	100	100	90
HB Servizi Srl - Milan	1 share	230	100	100	-	-	1 share	230	100	100
Total investments in Italian subsidiaries		**4,609,783**				-		**4,609,783**		

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Brazil										
Pirelli Ltda - Sao Paulo	13,999,991	9,666	100	100	-	-	13,999,991	9,666	100	100
Prometeon Tyre Group Industria Brasile Ltda	1	0	-	-	(1)	(0)	-	-	-	-
Pirelli Latam Participações Ltda.	1	0	-	-	-	-	1	0	-	-
UK										
Pirelli UK ltd. - London - ordinary	163,991,278	21,871	100	100	-	(14,000)	163,991,278	7,871	100	100
Switzerland										
Pirelli Group Reinsurance Company S.A.	300,000	6,346	100	100	-	-	300,000	6,346	100	100
Total investments in foreign subsidiaries		**37,883**				**(14,000)**		**23,883**		
Total investments in subsidiaries		**4,647,666**				**(14,000)**		**4,633,666**		

MOVEMENTS OF INVESTMENTS IN ASSOCIATES FROM 12/31/2019 TO 12/31/2020

(in thousands of euro)

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN ASSOCIATES										
ITALY										
Unlisted:										
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV) -Milan	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A. - Rome	52,333,333	6,271	33	33	-	-	52,333,333	6,271	33	33
Focus Investments S.p.A.	111,111	-	8	8	-	-	111,111	-	8	8
Total unlisted companies		**6,375**				-		**6,375**		
Total investments in associates - Italy		**6,375**				-		**6,375**		
Total investments in associates		**6,375**				-		**6,375**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2019 TO 12/31/2020 (Continue)

(in thousands of euro)

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
RCS Mediagroup S.p.A. - Milan	24,694,918	24,892	4.7	4.7	-	(10,816)	24,694,918	14,076	4.7	4.7
Total other Italian listed companies		**24,892**				**(10,816)**		**14,076**		
Total other listed companies		**24,892**				**(10,816)**		**14,076**		

	12/31/2019				CHANGES		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
ITALIAN UNLISTED COMPANIES										
Aree Urbane S.r.l. (in liquidazione) - Milan	1 share	-	0.3	0.3	-	-	1 share	-	-	-
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A. - Capua (CE)	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A. - Rome	1,162,098,622	-	1.4	1.4	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	4.9	4.9	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidazione) - Milan	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
Consorzio per L'Innovazione nella Gestione di Azienda -Mip -(Master Imprese Politecnico) Milan	12,000	-	2.9	2.9	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche - Milan	1 share	-	9.0	9.0	-	-	1 share	-	9.0	9.0
Società Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A. - Rome	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l. - Milan	1 share	20,565	14.3	14.3	-	(4,663)	1 share	15,903	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 share	7,465	6.1	6.1	-	497	1 share	7,962	6.1	6.1
Nomisma - Società di Studi Economici S.p.A. - Bologna	959,429	280	3.3	3.3	-	13	959,429	293	3.3	3.3
Tiglio I S.r.l. - Milan	1 share	16	0.6	0.6	-	1	1 share	17	0.6	0.6
Genextra S.p.A.	592,450	26	0.6	0.6	-	-	592,450	26	0.6	0.6
Total other Italian unlisted companies		**28,352**				**(4,152)**		**24,200**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2019 TO 12/31/2020

(in thousands of euro)

	12/31/2019				Changes		12/31/2020			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Libia										
Libyan-Italian Joint Company - ordinary shares B	300	-	1.0	1.0	-	-	300	-	1.0	1.0
Belgium										
Euroqube S.A. (in liquidation)	67,570	12	18.0	18.0	-	(0)	67,570	11	18.0	18.0
UK										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
Total other foreign companies		**12**				**(0)**		**11**		
OTHER PORTFOLIO SECURITIES										
Fondo Comune di Investimento Immobiliare - Anastasia	53 shares	3,947	-	-	-	(1,161)	53 shares	2,786	-	-
TOTAL OTHER PORTFOLIO SECURITIES		**3,947**				**(1,161)**		**2,786**		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME		**57,203**				**(16,129)**		**41,074**		

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

(in thousands of euro)

	Legal address	Carrying amount	Share %	Share capital	Attributable equity	Attributable net income (loss)
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,237	100%	2,047	3,179	(19)
Maristel S.p.A.	Milan	1,315	100%	50	3,379	(43)
Pirelli Sistemi Informativi S.r.l.	Milan	1,656	100%	1,010	2,836	507
Pirelli Tyre S.p.A.	Milan	4,528,245	100%	558,154	1,714,474	7,299
Servizi Aziendali Pirelli S.c.p.a.	Milan	100	91.3%	104	405	44
HB Servizi S.r.l	Milan	230	100%	10	328	90
Pirelli International Treasury S.p.A.	Milan	75,000	30%	125,000	81,992	6,763
Total investments in subsidiaries - Italy		**4,609,783**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,777	12,795	1,656
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	2,195	978	(397)
UK						
Pirelli UK Ltd.	London	7,871	100%	182,409	7,476	(13,551)
Total investments in foreign subsidiaries		**23,883**				
Total investments in subsidiaries		**4,633,666**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORI-MAV)	Milan	104	100%	104	104	-
Eurostazioni S.p.A. **	Rome	6,271	32.7%	6,482	6,398	84
Focus Investments S.r.l.	Milan	-	8.3%	*	*	*
Total investments in associates - Italy		**6,375**				
Total investments in associates		**6,375**				

* Data not yet available
** balance sheet at July 31, 2020

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

The Board of Statutory Auditors of Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**") (which, pursuant to legislative decree no. 39 of 27 January 2010, also acts as the Internal Control and Audit Committee), pursuant to art. 153 of legislative decree no. 58 of 24 February 1998 ("**TUF**") and the applicable provisions of the Italian Civil Code, is called on to report to the Shareholders' Meeting, convened to approve the financial statements, on the supervisory activities carried out during the financial year and on any omissions and misconduct it might have detected. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

First, it should be noted that the Board of Statutory Auditors, as of the date of drafting and publication of this Report (**"Report"**), has been continuously updated on the actions to monitor the situation and the social, economic and financial effects for Pirelli and the Group of which it is the parent company, deriving from the spread of the Covid-19 virus ("**Coronavirus**") since January 2020. The considerations made are set out in a specific paragraph of this Report.

During the financial year, the Board of Statutory Auditors has carried out its supervisory activities as required by the law in force, taking account of the provisions of European Regulation 537/2014, the Rules of Conduct for the Boards of Statutory Auditors of Listed Companies recommended in the document issued by the Italian National Council of Chartered Accountants and Accounting Experts last updated in April 2018 ("**Rules of Conduct**"), and the Consob provisions on company controls and the activities of the Board of Statutory Auditors and the indications contained in the Corporate Governance Code for listed companies, in force until 31 December 2020 ("**Corporate Governance Code"**), and in the new Corporate Governance Code in force from 1 January 2021 ("**New Corporate Governance Code**"), to which Pirelli has resolved to adhere.

As well as through the attendance of all or some of the Statutory Auditors at meetings of the Board of Directors and its committees, this also took place through the constant exchange of information between the Board of Statutory Auditors and the relevant administrative, audit and compliance departments, and with the Supervisory Body created pursuant to Legislative Decree no. 231 of 8 June 2001, as well as with the members of the boards of statutory auditors of the principal subsidiaries and with the firm appointed as external auditor.

APPOINTMENT AND COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office at the Report date was appointed by the Shareholders' Meeting held on 15 May 2018 for the financial years 2018-2020 and will expire due to having reached the end of the mandate at the Shareholders' Meeting convened to approve the financial statements at 31 December 2020.

The Board of Statutory Auditors is composed of Standing Auditors Francesco Fallacara (Chairman), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, and Alternate Auditors Elenio Bidoggia, Franca Brusco and Giovanna Oddo.

Pursuant to art. 148, paragraph 3, of the TUF, and the provisions of the Corporate Governance Code and New Corporate Governance Code, to which, as previously mentioned, Pirelli has resolved to adhere, the Board of Statutory Auditors has verified that as of 31 December 2020 its Standing members had retained the requirements of independence (that they already ascertained to possess at the time of their appointment, together with the correct application of the criteria and the ascertainment procedures adopted by the Board of Directors to assess the independence of Directors). For more details in this regard see paragraph "Self-assessment process for the Board of Statutory Auditors".

ADHESION TO THE CODES OF CONDUCT

As anticipated, Pirelli resolved to adhere, first, to the Corporate Governance Code and, then, to the New Corporate Governance Code.

The Board of Statutory Auditors has assessed the effective and correct application of corporate governance rules provided herein by the Company and ensured that these are fully implemented in the corporate governance model currently in force, described in the Report on the Corporate Governance and Share Ownership (as described in more detail below), that is substantively in line with the principles contained in both codes of conduct mentioned above.

COMMENTS ON THE 2020 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Pirelli's financial statements have been drawn up based on the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force on 31 December 2020 and in accordance with the instructions issued in implementation of art. 9 of Legislative Decree 38/2005. The financial statements also include the notice required by law 124/2017 (art. 1, paragraphs 125-129).

The principal risks and uncertainties are summarised in the Directors' Report on Operations, and there is a section on the outlook for the coming year.

The Company's financial statements are composed of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Explanatory Notes.

The financial statements are accompanied by the Directors' Report on Operations, and include the Report on the Corporate Governance and Structure of Share Ownership – prepared pursuant to art. 123-*bis* of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254, of 30 December 2016), drawn up by the Company in accordance with the Sustainability Reporting Standards of the

Global Reporting Initiative (GRI) - Comprehensive option - and the principles of inclusiveness, materiality and compliance with the AA1000 Standard. The financial statements also include the Report on the remuneration policy and the compensation paid, comprising the 2021 Remuneration Policy ("**2021 Policy**") and the Report on Compensation Paid in 2020.

The 2020 separate financial statements and consolidated financial statements of Pirelli include statements of compliance by the CEO and by the Manager responsible for the preparation of the corporate financial documents, as required by prevailing legislation.

Pirelli's 2020 consolidated financial statements present the following summary data:

Revenues	4,302.1 million euro
Operating income (EBIT)	219.1 million euro
Adjusted EBIT	501.2 million euro
Consolidated net profit	42.7 million euro

The consolidated net financial position is negative for 3,258.4 million euro, compared to 3,507.2 million euro at 31 December 2019.

Parent company Pirelli closed the financial year with positive net income to the amount of 44.0 million euro (273.2 million euro in 2019).

Events of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following events, in particular, should be noted:

- on **19 February 2020** Pirelli presented the 2020-2022 Business Plan with a vision through to 2025 to the financial community. On the same date the Board of Directors approved the adoption of a new monetary incentive plan (LTI) intended for the whole management of the Group and related to the targets of the plan and it resolved on the early closure - effective as of 31 December 2019 - with no disbursement, of the previous plan adopted in 2018 and linked to the objectives of the 2018-2020 period. The Board of Directors of **3 April 2020**, as part of the cost containment actions for Covid-19, reformulated the 2020 targets and reviewed the 2020 Remuneration Policy ("**2020 Policy**") taking into account, in particular, the cancellation of the short-term incentive system for 2020;

- following the Covid-19 emergency, **in the first three months of 2020**, Pirelli implemented a series of measures protecting the health of its employees and community, at both the Headquarters and plants, where production progressively slowed until it stopped, first in China and then in the rest of the world. During the **second quarter**, operations started up again, first in China, and then progressively in the other plants, with slow initial production considering the decline in demand;

- in **March 2020**, thanks to the support of certain partners, including Camfin S.p.A. and Fondazione Silvio Tronchetti Provera, Pirelli promoted a series of charitable initiatives in Italy and throughout the world to support the fight against Coronavirus and Coronavirus research;

- on **2 March 2020**, Pirelli's Board of Directors approved the 2019 financial statements closed with consolidated net income to the amount of 457.7 million euro and resolved to propose to the Shareholders' Meeting a distribution of a dividend to the amount of 0.183 euro, for a total of 183 million euro. The Board of Directors of **3 April 2020**, as part of the cost containment actions for Covid-19, described below in more detail, cancelled the distribution of dividends in the financial year 2019, changing the previous resolution proposed to the Shareholders' Meeting;

- on **31 March 2020**, Pirelli announced that it had stipulated a new credit facility for 800 million euro with an incentive mechanism related to the Group's product and process environmental sustainability goals provided for by Pirelli's business plan and expiring 5 years after first use, mainly to repay existing debt. The Company also extended the expiry of a credit facility for 200 million euro by more than a year (from June 2020 to September 2021), through the early repayment of the existing loan and the simultaneous granting of a new credit line of the same amount and under the same economic conditions. These operations are examples of the constant actions implemented to optimise and strengthen Pirelli's financial structure;

- on **3 April 2020** Pirelli's Board of Directors, beyond the above resolutions, implemented - before a deteriorated scenario - a series of actions aimed at protecting profitability and cash generation. In particular, it implemented further cost containment actions, revisited the investment plan in line with the new market outlook, implemented actions for the optimal management of working capital and reduced the remuneration of Top Management;

- on **29 April 2020**, following the call of the Shareholders' Meeting held on **28 April 2020**, Pirelli announced the entry into force of agreements undersigned on 1 August 2019 - already disclosed to the market - between China National Chemical Corporation Limited ("**ChemChina**"), China National Tire & Rubber Corporation Ltd. ("**CNRC**"), Silk Road Fund Co., Ltd., Camfin S.p.A. and Marco Tronchetti Provera & C. S.p.A., concerning their long-term partnership with Pirelli. Moreover, with the occasion, Silk Road Fund Co., Ltd. and CNRC undersigned the "Revised Acting-in-concert Agreement", that supersedes and replaces the previous "Acting-in-concert Agreement" undersigned by the parties on 28 July 2017, and the "Amendment" to the Supplemental Agreement of the investment agreement in Pirelli, signed by the parties on 28 July 2017. The Revised Acting-in-concert Agreement was in force from **29 September 2020**, following the completion of the non-proportional and asymmetric partial demerger of Marco Polo International Italy S.r.l. in favour of PFQY S.r.l. - a company wholly owned by Silk Road Fund Co., Ltd. - whereby, among other things, an equity investment of 9.02% of Pirelli's capital was assigned to the latter. Following the above demerger, Marco Polo International Italy S.r.l., controlled by ChemChina/CNRC, holds 37,01% of Pirelli's capital;

- on **30 April 2020**, Pirelli announced the relaunching of activities from 4 May with a plan, in collaboration with the University of Milan - Department of Biomedical and Clinical Science "L. Sacco", directed by Professor Massimo Galli, aimed at ensuring the maximum protection of the health of its employees and the safety of the workplaces. In **May and June**, after the reopening of factories in China in March, all of the Group's production plants were gradually reopened, at a pace that was proportionate to the demand trend. In particular, at the Bollate site - a plant that will focus on the Velo business - a procedure was launched for the production of masks for the exclusive use of employees and their families, allowing for potential risks related to the discontinuity of supply by third parties to be eliminated;

- on **18 June 2020**, the Pirelli Shareholders' Meeting approved the financial statements of 2019 and the allocation of the result, appointed, until the approval of the Company's financial statements at 31 December 2022, the Board of Directors with 15 component members, of which the majority are independent members, and confirmed Ning Gaoning as Chairman. Based on the two slates submitted, the following were appointed Directors of Pirelli: *Ning Gaoning, Marco Tronchetti Provera, Yang Xingqiang, Bai Xinping, Wei Yintao, Domenico De Sole, Giovanni Tronchetti Provera, Zhang Haitao, Fan Xiaohua, Marisa Pappalardo, Tao Haisu, Carlo Secchi, Giovanni Lo Storto, Paola Boromei* and *Roberto Diacetti*. The Shareholders' Meeting also approved the 2020 Policy and voted in favour of the Report on Compensation Paid in the financial year 2019. The Shareholders' Meeting also approved the adoption of the three-year monetary Incentive Plan (LTI Plan) for the period 2020-2022 for the management of the Pirelli Group and the "Directors and Officers Liability Insurance". In extraordinary session, the Shareholders' Meeting also approved certain changes to the bylaws, mainly related to the new legislation on gender quotas;

- on **22 June 2020**, Pirelli's new Board of Directors appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer (CEO), granting him with the operational management powers of Pirelli. The Board also proceeded to appoint Board Committee members, confirming all the previous Committees with their respective duties of investigation, consultation and advice. The Board of Directors also confirmed Francesco Tanzi as the Group's Chief Financial Officer and Manager responsible for the preparation of the corporate financial documents; it also appointed the Supervisory Body, whose term of office ended at the same time as the Board;

- on **23 July 2020**, the Pirelli Board of Directors appointed, at the proposal of the Executive Vice Chairman and Chief Executive Officer and directly reporting to him, the General Direction co-CEO, assigned to Angelos Papadimitriou, with effect from 1 August 2020. Angelos Papadimitriou was co-opted by the Board of Directors on **5 August 2020** (and qualified, as General Manager of the Company, as "executive director"), replacing Carlo Secchi who, with effect from the same date, resigned from his position as Director. Mr Carlo Secchi continues to hold the office of Chairman of the Supervisory Body of the Company;

- on **5 August 2020**, the Board of Directors, in order to take account of the radical changes to the macroeconomic scenario, gave the Remuneration Committee a mandate to review the 'Net Cash Flow' section of the Long-Term Incentive Plan 2020-2022, to align the relative goal with the new guidance disclosed to the market, on the occasion of the data at 30 June 2020 and with the targets of the business plan for the years 2021 and 2022, that would have been communicated within the first quarter of 2021. This was to maintain the full alignment of interests between shareholders and management in an LTI Plan that confirms the Total Shareholders Return objectives (with respect to the peers tier one) and Pirelli's position in selected sustainability indices at the global level;

- on **28 October 2020**, the European Union Court of Justice confirmed the previous decisions of the EU Court and the EU Commission, with regards to the cartel in the electricity cables market, to sentence Prysmian Cavi e Sistemi S.r.l. to the payment of a fine, for a part of which (equal to 67,310,000 euro) Pirelli was called to answer jointly with Prysmian under the exclusive application of the Community principle of parental liability. In this regard, Pirelli had already deposited a bank guarantee, in favour of the EU Commission, of 33,655,000 euro (corresponding to 50% of the sanction imposed jointly to Prysmian and Pirelli), with interest. The payment, by Pirelli, of its part of the fine, whose value was already allocated in its provisions for liabilities and charges, was made on **31 December 2020.** It should be noted that a case brought by Pirelli in 2014 is still pending before the Court of Milan to ascertain and obtain a declaration that Prysmian has an obligation to hold Pirelli fully harmless against any claim related to the cartel, including the fine issued by the EU Commission;

- on **15 December 2020**, Pirelli allocated 500 million euro worth of non interest-bearing Convertible Senior Unsecured Guaranteed Equity-linked Bonds in Pirelli shares due in 2025, having obtained the approval of the Shareholders' Meeting. The bonds were issued at 100% of their nominal value, with a conversion price of 6.235 euro per share (equal to a premium of 45% on the reference price of the operation of 4.3 euro). This loan transaction allows for the optimisation of the company debt profile, extending their expiry dates, and maintaining the business-generated cash, thanks to the fact that the bonds are non interest-bearing. The revenues deriving from the bonds can be used both for the Group's general operations and to refinance part of its existing debt. The bond was admitted for trading on the Vienna MTF, a multilateral trading system managed by the Vienna Stock Exchange.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE CLOSURE OF THE FINANCIAL YEAR

The most significant events that occurred after the closure of the financial year are detailed in the Directors' Report on Operations and in the financial statements.

It should be noted, in particular, that in **January and February 2021**, Pirelli made early repayment of some of its debt due in 2021 and 2022, for a total amount of 838 million euro. In particular, the Company repaid a tranche of the "Schuldschein" loan, due on 31 July 2021, equal to 82 million euro and part of the unsecured loan, due in 2022, equal to 756 million euro. The repayments, for which part of the liquidity received in 2020 was used, reduce the company's financial expenses, thereby optimising its debt financial structure.

On **25 February 2021**, Pirelli communicated the terms of the termination, with effect from 28 February 2021, of the employment contract with the General Manager co-CEO Angelos Papadimitriou, already disclosed to the market on **20 January 2021.**

In compliance with the 2020 Policy, Mr Papadimitriou was acknowledged, by the Board of Directors, the following benefits, in addition to the amounts owed to him by way of remuneration and other employment law accrued up to the date of termination of his office as General Manager co-CEO: (i) 10 months of gross annual salary, by way of incentive to take redundancy, equal to the amount that would have been due to him by way of indemnity in lieu of notice, due to the conventional seniority acknowledged at the time he was hired as manager, to be paid by 20 April 2021; (ii) a gross 100,000 euro by way of general novative transaction by 20 April 2021, once the termination has been defined, in accordance with current employment law procedures as well as the maintenance until 31 December 2021 of some of the non-monetary benefits attributed at the time he was hired as manager. As envisaged at the time he was hired, subject to the condition precedent of approval of the 2021 Policy by the Shareholders' Meeting, Mr Papadimitriou will remain bound, for two years after leaving his position as Director, to a non-competition agreement, valid for the main countries in which Pirelli operates, in exchange for payment, for each year of validity, equal to 100% of the gross annual salary, to be disbursed in 8 quarterly instalments in arrears, starting from 1 July 2021; the non-competition agreement includes a non-solicit clause, as well as penalties in the event of breach of the obligations deriving therefrom.

On **24 March 2021**, in support of the execution of the business plan, the Executive Vice Chairman and CEO decided to propose the appointment of Giorgio Luca Bruno, directly reporting to him, as Deputy-CEO.

Pursuant to the above, Angelos Papadimitriou withdrew his candidature for the position of Director. Therefore the Shareholders' Meeting, convened on the same date and during which his reconfirmation was planned, among other things, as part of the Agenda, decided to postpone the appointment of a new Director, in the person of Giorgio Luca Bruno as shall be indicated by the Board of Directors, to 15 June. Angelos Papadimitriou, previously co-opted, has therefore expired from his position as Director. The Shareholders' Meeting also approved, in extraordinary session, the convertibility of the equity-linked bond, named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", issued on 22 December 2020, and approved a capital increase in tranches, with the exclusion of the option rights, to service the conversion of the aforementioned bond, for a total equivalent amount, including surcharges, of 500 million euro. Based on the initial bond conversion ratio of 6.235 euro, the abovementioned increase will correspond to the issue of a maximum of 80,192,461 ordinary Pirelli shares (without prejudice to the fact that the maximum number of ordinary Pirelli shares could increase based on the effective applicable conversion ratio).

On **31 March 2021**, the Board of Directors approved the 2021-2022|2025 Business Plan that was presented on the same date to the financial community.

UNUSUAL OR EXCEPTIONAL TRANSACTIONS

We are unaware of any atypical or unusual transactions, as defined by Consob in Decision DEM/6064293 of 28 July 2006.

INTRAGROUP OR RELATED PARTY TRANSACTIONS

Pursuant to art. 2391-*bis* of the Italian Civil Code and Consob resolution 17221 of 12 March 2010, containing the "Regulations on Related Party Transactions", subsequently amended by Consob resolution 17389 of 23 June 2010 ("**Consob Regulation**"), the Board of Directors, on 31 August 2017, unanimously approved the "Procedure for Related-Party Transactions" ("**RPT Procedure**") with effect from 4 October 2017, when listing of the Company's ordinary shares started on the Stock Exchange Market organised and managed by Borsa Italiana S.p.A.

In line with the information set out in the listing prospectus, on 6 November 2017 the Board of Directors subject to the favourable opinion of the relevant Committee, comprised exclusively of

Independent Directors (and entrusted with this duty under art. 4 of the aforementioned Consob Regulation with a specific resolution passed by the Board of Directors - “**RPT Committee**”) unanimously confirmed the text of the RPT Procedure approved before listing.

On 22 June 2020, the Board of Directors appointed by the Shareholders’ Meeting of 18 June 2020 resolved to confirm the RPT Procedure.

On 11 November 2020, the Board of Directors - taking into account that pursuant to art. 17.2 of the RPT Procedure, “*Periodically and at least every three years, the Board of Directors, having received the opinion of the RPT Committee, assesses the need to revise this Procedure, taking into account any amendments made to the ownership structure as well as its effectiveness*” - resolved, having received the favourable opinion of the RPT Committee, to confirm the RPT Procedure, without changes, reserving itself to carry out a further re-assessment of the same to ensure all the necessary or appropriate updates are adopted, in light of the changes to the Consob Regulation to be adopted by the Supervisory Authority on implementation of the changes to the European directive, “Shareholders’ rights directive II”.

In this context, the Board of Statutory Auditors, in virtue of the supervisory duties laid down by current regulations, agreed with the RPT Committee’s proposal to the Board of Directors regarding the confirmation of the RPT Procedure and carried out supervisory activities to ensure this Procedure was compliant with the principles indicated in the Consob Regulation. Pursuant to art. 4, paragraph 6, of the Consob Regulation, it should be noted that the RPT Procedure adopted by the Company and currently in force (i) is coherent with the principles contained in said Regulation, and (ii) is published on the Company’s website (www.pirelli.com).

The abovementioned changes to the Consob Regulation were, as has already been established, introduced with Consob Resolution no. 21624 of 10 December 2020, which amended the Consob Regulation (“**New Consob Regulation**”). The New Consob Regulation will enter into force from 1 July 2021 and by 30 June 2021 the Company will undertake to adjust the RPT Procedure to the New Consob Regulation. In this context, the Board of Statutory Auditors will be called to monitor compliance of the procedure with the principles indicated in the New Consob Regulation.

During the 2020 financial year there were both intragroup and non-intragroup related-party transactions.

The intragroup transactions, the effects of which are reported in the financial statements, are ordinary in that they are essentially made up of the reciprocal provision of services (technical, organisational, general) provided by the headquarters to the subsidiaries and charging royalties for the use of patents to the Group companies that benefit from them. They were regulated applying normal conditions determined using standard parameters that reflect the actual use made of the services and were carried out in the interests of the Company, since they were aimed at rationalising the use of the Group’s resources.

The non-intragroup related-party transactions that we reviewed were also of an ordinary nature (since they were part of normal business operations or related financial activities) and/or concluded at market or standard equivalent terms and were in the interest of the Company. These transactions were reported to us periodically by the Company.

We attended the meetings of the RPT Committee during which the Committee expressed a favourable opinion of some related party transactions of "lesser significance", after having considered the interest of the Company in the completion of the transaction and the convenience and substantial correctness of their conditions.

Regarding such transactions, we have always expressed the view that they were in the interests of the Company.

The effects of the aforementioned transactions for the 2020 financial year are fully reflected in the financial statements.

We have monitored compliance with the RPT Procedure and the correctness of the process followed by the Board and by the competent RPT Committee for the qualification of related parties - sharing, *inter alia*, the assessments of the RPT Committee regarding the qualification of Pirelli's related parties established in November 2020 in light of the changes to the share ownership structure of the Company itself - and have nothing to report.

The transactions with related parties are detailed in the notes to the Company's separate and consolidated financial statements, including information on the consequent effects on the Income Statement and the Statement of Financial Position. The Statutory Auditors deem the information on transactions with related parties provided in the financial statements to be adequate.

IMPAIRMENT TEST PROCEDURE

It should be noted that the Board of Directors, as provided for in the joint Banca d'Italia/Consob/ISVAP document of 3 March 2010, independently, and before the approval of the relative periodic financial report by the Board of Directors, resolved that the impairment test procedure complied with the prescriptions of international accounting standard IAS 36, after said procedure had been approved by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors; this occurred, in particular, in the meetings:

(i) of 23 July 2020 (therefore, independently and before the meeting of 5 August 2020 for the approval of the Half Year Financial Report as at 30 June 2020), in the context of a review of the impairment test procedure approved by the Board itself on 19 February 2020, by virtue of the indications of the Supervisory Authorities in relation to the financial markets (respectively Consob warning notice no. 6/20 of 9 April 2020 and the ESMA public statement 32-63-972 of 20 May 2020), which invited the listed companies to assess, on the basis of internal and external information sources, and also in consideration of the effects deriving from the Covid-19 emergency, the presence, or lack thereof, of any loss in value indicators in relation to the assets entered into the Half Year Financial Report; and

(ii) of 25 February 2021 (therefore, independently and before the meeting of 31 March 2021 for the approval of the draft financial statements as at 31 December 2020).

In both cases, the Company carried out an impairment test on the goodwill allocated to the group of Consumer Business cash generating units and to the Pirelli brand, with the assistance of a highly qualified expert.

Information on the assessment process in point (ii) conducted with the assistance of a highly qualified expert, and on its outcomes, is provided in the explanatory notes to the financial statements.

The Board of Statutory Auditors deems the procedure adopted by the Company for the preparation of the financial statements as at 31 December 2020 adequate (the same as the one used in the preparation of the Half Year Financial Report at 30 June 2020) and the relative information comprehensive.

SUPERVISORY ACTIVITY PURSUANT TO LEGISLATIVE DECREE 39/2010 "EXTERNAL AUDITORS"

The Board of Statutory Auditors, in collaboration with the Audit, Risks, Sustainability and Corporate Governance Committee and pursuant to changes to the regulations introduced by legislative decree no. 135 of 17 July 2016, supervised:

- the financial reporting process;
- the effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual and consolidated accounts;
- the independence of the external auditor, in particular with regard to the provision of non-auditing services;
- the results of the external audit with specific reference to the additional report pursuant to art. 11 of European Regulation 537/2014.

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SUPERVISING THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified that there are adequate rules and processes governing the "formulation" and "dissemination" of financial information, considers that the financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In addition to the annual and half-year reports, the Company voluntarily publishes the additional periodic financial information specified in art. 82-*ter* of Consob Regulation 11971/99 (so called "interim reports on operations") for the periods that end on 31 March and 30 September each year.

Regarding the single electronic communications format for the annual financial reports (ESEF), for completeness, attention should be drawn to the power of postponing provisions of the Delegated Regulation (EU) 2019/815 regarding financial reports relative to the financial years starting from 1 January 2021, introduced by Regulation (EU) 2021/337 of the European Parliament and the Council, and subject to notification, to the European Commission, by each member State of its intention to authorise said postponement before 19 March 2021, the option - as already established -

implemented by Italy (with law no. 21 of 26 February 2021, converting legislative decree no. 183 of 31 December 2020, "Milleproroghe") and notified to the Commission on 2 March 2021. In virtue of the information provided above, the draft financial statements as at 31 December 2020 were not prepared using the ESEF format.

SUPERVISING THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors has monitored compliance with the provisions contained in legislative decree no. 254 of 30 December 2016 with reference to the non-financial declaration ("**DNF**"), also verifying that there are adequate rules and processes governing the process of "formulating" and "disseminating" non-financial information, and considers that the non-financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In particular, the Board of Statutory Auditors acknowledged that the Company has adopted a structured system to monitor the content of the DNF which includes: (i) a dedicated operating rule to ensure adequate reporting of information of a non-financial nature; (ii) a control system to ensure greater assurance that the principal non-financial information is reported correctly; (iii) checks of the data of a non-financial nature in the DNF, after appropriate highlighting and verification; (iv) signature of a letter of attestation by the senior management on the non-financial data included in the paragraphs on this subject in the financial statements.

The Company did not avail itself of its right pursuant to art. 3, paragraph 8, of legislative decree no. 254 of 30 December 2016 to omit information concerning imminent developments and transactions being negotiated.

SUPERVISING THE EFFECTIVENESS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS, AND THE EXTERNAL AUDIT OF THE ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Board of Statutory Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee, met with the Head of Internal Audit once every quarter. At those meetings, information was provided on the results of the audits designed to ascertain the adequacy and operational effectiveness of the Internal Control System, compliance with the laws and the business procedures and processes, as well as on the implementation of the related improvement plans. The Board of Statutory Auditors also confirmed the efficiency and adequacy of the internal control system, following some changes to the organisational structure arising from the Internal Audit department, which was carried out during 2020. The Board also received the Audit Plan for the financial year, its final results and the risk analysis, expressing a favourable opinion of their approval by the Board, where requested. During the meetings, it was also constantly updated about the application of the "Whistleblowing" procedure in the Pirelli Group.

Furthermore, every six months it received the reports of the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body on the activities they had undertaken.

The Board of Statutory Auditors also took note of the report made by the Manager responsible for the preparation of the corporate financial documents who, when the draft financial statements were being approved, confirmed the adequacy and appropriateness of the powers and resources conferred on him by the Board of Directors, and also confirmed that he had been given direct access to all the information necessary to produce accounting data, without needing to obtain any authorisation. The Board of Statutory Auditors also acknowledged that the Manager responsible had reported that he had participated in the development of internal flows of information for accounting purposes and had approved all corporate procedures which impacted the Company's profitability, financial position and/or assets and liabilities.

The Board of Statutory Auditors confirms that at present there is no need for measures to guarantee the effectiveness and impartiality of the corporate departments involved in the internal control and risk management system and, specifically, other than the Internal Audit department (mentioned above), the Compliance and Rules department, the Tax Risk Officer and Enterprise Risk Management.

Accordingly, the Board of Statutory Auditors expresses a positive opinion of the adequacy of the internal control and risk governance system as a whole, and has no issues to raise to the Shareholders' Meeting in this regard.

The Board of Statutory Auditors also met with the external auditor at least once every quarter. No fundamental issues or significant shortcomings in the internal control system related to the financial reporting process arose in these meetings, also with regard to the provisions set out in art. 19, paragraph 3, of legislative decree no. 39 of 27 January 2010.

In particular, it should be noted that the Board of Statutory Auditors found that the controls specified in Law 262/2005 on the financial statements as at 31 December 2020 evidenced that the administrative-accounting procedures had been applied correctly. The prescribed controls on the application of the control framework for the DNF evidenced that the internal procedures had also been applied correctly.

The Board of Statutory Auditors considered that no "significant shortcomings" in the internal control system for the financial reporting process and the DNF emerged in the letter of recommendations to the management drafted by the external auditor.

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. ("**PWC**"). The appointment as external auditor of the accounts was made by the Shareholders' Meeting, on the reasoned proposal of the controlling body, in its meeting on 1 August 2017, for the nine-year period 2017/2025, pursuant to the applicable provisions for listed companies (the appointment was effective from 4 October 2017, the date Pirelli's shares were admitted to trading). PWC was also appointed as external auditor of the accounts of the principal Pirelli Group companies in Italy and abroad.

It should be specified that, with respect to the remuneration granted in favour of PWC, on 19 October 2020 the Board of Statutory Auditors undertook to acknowledge, in favour of PWC, the adjustment of the remuneration, for the financial year 2020 only, of 5,000 euro - an insignificant amount which, as such, does not constitute a substantial review of the proposal approved by the Shareholders'

Meeting of 1 August 2017 - by virtue of the integrated activities carried out by PWC, under the scope of the limited audit of Pirelli's Half Year Financial Report, due to the Covid-19 emergency.

Pursuant to art. 14 of legislative decree no. 39 of 27 January 2010, and art. 10 of Regulation (EU) 537/2014, on 2 April 2021 PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2020. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to art. 11 of Regulation (EU) 537/2014. On the same date, PWC issued its Report on the consolidated non-financial disclosure pursuant to art. 3, paragraph 10, of legislative decree no. 254 of 30 December 2016.

The texts of the aforementioned reports - drafted in accordance with the applicable legal provisions - do not contain any elements to bring to the attention of the Shareholders' Meeting.

SUPERVISING THE INDEPENDENCE OF THE EXTERNAL AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

The Board of Statutory Auditors monitored the independence of the external auditor and in particular received periodic evidence of non-audit work assigned to PWC, also by virtue of specific regulatory provisions.

Regarding the independence of the external auditor, a structured procedure has been issued at Group level. In line with the provisions of legislative decree no. 39 of 27 January 2010, this sets out that no Pirelli Group company may assign tasks other than the external audit of the accounts to companies that are members of the network of the appointed external auditor without the prior express authorisation of the Board of Statutory Auditors, which, with the assistance of the Chief Financial Officer and of the Secretary of the Board, has the responsibility of checking that the proposed assignment is not listed as not permitted by art. 5 of Regulation (EU) 537/2014, and that in any event, given its characteristics (considering the payment planned, the nature of the service and the reasons for the assignment), said assignment complies with the principles of independence of the external auditor and it has no impact on the independence of the external auditor.

In a letter dated 2 April 2021, PWC confirmed its independence pursuant to art. 6, paragraph 2, of Regulation (EU) 537/2014 and paragraph 17, letter a) of International Audit Standard (IAS) 260.

During the 2020 financial year, PWC and its network carried out the activities summarised below for the Group. These activities were the object of assignments approved by the Board of Statutory Auditors where they do not relate to tasks assigned before the Company was listed:

2020 EXTERNAL AUDITOR FEES

(thousands of euros)	Service provider	Recipient	Partial fees	Total fees	
External auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1.147		
	Network PricewaterhouseCoopers	Subsidiaries	1.222	**2.448**	*78%*
Attestation services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	334		
	Network PricewaterhouseCoopers	Subsidiaries	33	**517**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	5	**155**	*5%*
				3.120	*100%*

(1) "Attestation services" include amounts paid for other services that require the issuance of an audit report as well as amounts paid for so-called attestation services as they are synergistic with the external auditor.

The Board of Statutory Auditors considers the fees mentioned above to be adequate to the size, complexity and characteristics of the work carried out, and also considers that the non-audit assignments (and their fees) are not such as to have an impact on the independence of the external auditor.

In this latter regard, it should be noted that the Board of Directors, after having obtained the assessment of the Audit, Risks, Sustainability and Corporate Governance Committee, was in agreement with the Statutory Auditors' opinion.

We would like to remind you that pursuant to Regulation (EU) 537/2014 of 16 April 2014, as of 1 January 2020 the Board of Statutory Auditors of Public-Interest Entities (EIP), as the Internal Control and Audit Committee, is required to monitor the assignments other than auditing attributed to the external auditor in order to comply with the limit of 70% of the average fees paid in the last three financial years for the external audit activity. The Company has launched a procedure to comply with the aforementioned standard.

The Board of Statutory Auditors notes:

- that it assessed the adequacy of these procedures which are adequate to allow the Board of Statutory Auditors to understand the reasons for the proposal to assign a service other than an external audit and to possess all the data required to carry out the assessments;

- that it shared with the auditing firm the methodological system used for the calculation and periodic update of the aforementioned fee cap and payments made to the auditing firm for non-audit tasks carried out, and that said methodological system is deemed adequate for the purpose of monitoring compliance with the independence requirements of the auditing firm itself, and

- that the remuneration received by PWC during 2020 for services other than external auditing do not exceed 70% of the average remuneration for the external audit activity carried out at Pirelli and received in the three-year period 2017-2019.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors considered the Company's organisational structure to be adequate for the needs of the Company and appropriate to ensure that the principles of correct administration are respected.

The Report on corporate governance and the share ownership describes in detail the types of powers conferred on the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and indicates the matters reserved to the competence of the Board of Directors of Pirelli & C..

It should be noted that on 31 March 2021 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination on the Company pursuant to art. 2497 of the Italian Civil Code, without prejudice to the right of the parent company to include Pirelli within its own consolidation perimeter for accounting purposes.

It is useful to note that Pirelli exercises direction and coordination activity on numerous subsidiaries, having made the communications required by art. 2497-*bis* of the Italian Civil Code. The Board imparted instructions to the subsidiaries regarding compliance with the provisions pursuant to art. 114 of the TUF that are deemed adequate.

REMUNERATION OF THE DIRECTORS, GENERAL MANAGER AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

During 2020, the Board of Statutory Auditors has expressed the opinions required by law regarding proposals for the remuneration of directors holding special offices, pursuant to the provisions of art. 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors:

- expressed its favourable opinion at the meeting of the Board of Directors of 19 February 2020 on (i) the payment of the 2019 STI (MBO) incentives on the basis of the preliminary data (later confirmed during approval of the final results at the Board of Directors meeting of 2 March 2020, provided in the following point) and the 2020 STI (MBO) Plan; (ii) the closure of the 2018-2020 LTI Plan with no disbursement, not even *pro-quota*, and the launch of the new 2020-2022 LTI Plan to support the 2020-2022 business plan (with the inclusion of a new sustainability objective – with 10% weighting – relating to Pirelli's rating in the CDP index);

- at the Board of Directors meeting of 2 March 2020 it expressed its favourable opinion, in addition to the above, of the approval of the 2020 remuneration report (made up of the 2020 Policy and the Report on Compensation Paid in 2019), as well as the relative Directors' Reports to the Shareholders' Meeting on compensation;

- at the Board of Directors meeting of 3 April 2020, it expressed its favourable opinion, within its competence:

  - on the renunciation, under the scope of the cost containment measures, by the Executive Vice Chairman and Chief Executive Officer, members of the Board of Directors and managers of the leadership team, of a part of their remuneration for the following quarter;

  - on the cancellation of the 2020 STI (MBO) plan, aimed at the Group's managers, including the Executive Vice Chairman and Chief Executive Officer and the leadership team, subject to the approval, by the Shareholders' Meeting, of the 2020 Policy and the advisory vote in favour of the Report on Compensation Paid in the financial year 2019;

- at the Board of Directors meeting of 13 May 2020, it confirmed its approval of the remuneration of the Corporate Vice President Internal Audit;

- at the Board of Directors meeting of 22 June 2020, it expressed its favourable opinion:

  - on the distribution, by the Board, of the overall remuneration granted by the Shareholders' Meeting of 18 June 2020;

  - on the confirmation of the remuneration in favour of the Chairman, the Executive Vice Chairman and Chief Executive Officer and the General Manager;

  - on the confirmation, for the General Manager and Key Managers, of the structure of the 2020/2022 long-term incentive plan, as well as the retention plan under the terms already resolved by the Company during the previous mandate, taking into account the resolutions passed by the Board of Directors in the meeting held on 3 April 2020; and

- at the Board of Directors meeting of 23 July 2020, it expressed its favourable opinion on the remuneration of the General Manager co-CEO to be appointed, responsible for the corresponding newly established General Manager co-CEO Direction, directly reporting to the Executive Vice Chairman and Chief Executive Officer.

In addition, following the close of the 2020 financial year, the Board of Statutory Auditors:

- at the Board of Directors meeting of 25 February 2021, expressed its favourable opinion on the consensual termination of the managerial employment contract with the General Manager co-CEO, from 28 February 2021, approving the economic terms of the relative termination agreement;

- at the Board of Directors meeting of 31 March 2021, it expressed its favourable opinion on (i) the 2021 STI plan; (ii) the review of the "cumulative Group Net Cash Flow (before dividends)" objective included in the 2020-2022 LTI plan and the possibility of normalising the effects on the promotion of the TSR relative to Cooper's integration in Goodyear; (iii) the adoption of the new 2021-2023 LTI plan, to support the new 2021-2022/2025 strategic plan; (iv) the approval of the 2021 Remuneration Report (composed of the 2021 Policy and the

Report on Compensation Paid in 2020), as well as the relative Directors' reports to the Shareholders' Meeting on compensation and the remuneration of the Deputy-CEO.

For more details see the Report on the Remuneration Policy and on Compensation Paid.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS AND INFORMATION REQUIRED BY CONSOB

In exercising its duties, the Board of Statutory Auditors, as prescribed in art. 149 of the TUF, monitored:

- observance of the law and the deed of incorporation;
- compliance with the principles of correct administration;
- the adequacy, for those aspects within its remit, of the organisational structure of the Company, the internal control system and the administrative-accounting system, and of the reliability of the latter to correctly represent operations;
- as already pointed out, how the corporate governance rules contained in the codes of conduct which the Company, in a notice to the public, declares that it complies with are actually implemented. In this respect, it should be noted that, pursuant to art. 123-*bis* of the TUF, the Company has, also for the 2020 financial year, drafted its annual Report on corporate governance and share ownership which provides information on (i) the corporate governance practices actually applied by the Company, over and above the obligations specified in the legal or regulatory provisions, (ii) the principal features of the risk and internal control systems that exist in relation to the financial reporting process, including the consolidate financial reports, (iii) how the Shareholders' Meeting functions, including its principal powers and shareholders' rights and how they are exercised, (iv) the composition and operation of the administration and control bodies and their committees, and the other information specified in art. 123-*bis* of the TUF;
- the adequacy of the instructions imparted by the Company to its subsidiaries pursuant to art. 114, paragraph 2, of the TUF, having ascertained that the Company is able to promptly and regularly fulfil the disclosure obligations set out in law and in the EU regulations, as prescribed in the aforementioned article, also by collecting information from the heads of the organisational departments, and periodic meetings with the external auditor, to exchange relevant data and information. In this regard, we have no particular comments to make.

It should also be noted that the Directors' Report on Operations includes a paragraph containing a description of the principal features of the internal control and risk management system in relation to the financial reporting process, including the reporting of consolidated financial information.

The Board of Statutory Auditors notes:

- that the Directors' Report on Operations complies with the current laws, reflecting the resolutions made by the administrative body and the results in the financial statements, and contains adequate information on operations during the year and on intra-group transactions. The section containing the report on transactions with related parties has been included in the explanatory notes to the financial statements, in compliance with the IFRS standards;

- that the explanatory notes comply with the current standards, indicating the criteria used in determining the balance sheet items and in the value adjustments, and that the separate and consolidated financial statements of the Company appear to have been drafted in accordance with the structure and frameworks imposed by the current standards. In application of Consob's provisions, the effects of relations with related parties on the Company's profitability, financial position, assets and liabilities and cash flows;
- that Directors and/or Senior Managers of the Parent Company are members of the Boards of Directors of the principal subsidiary companies to guarantee coordinated direction and an adequate flow of information, also supported by suitable accounting information.

It should also be noted that the Board of Statutory Auditors:

- received information from the Directors at least once every quarter concerning their activity and the transactions carried out by the Company having the greatest impact on its strategy, earnings, financial position and equity, and that it received this information in compliance with the specific procedure approved by the Board of Directors. The Board of Statutory Auditors can give reasonable assurance that the resolved and executed transactions comply with the law and the Bylaws, and are not manifestly imprudent, reckless or in conflict of interest, or in violation of the resolutions passed by the Shareholders' Meeting, or capable of compromising the integrity of the company's assets;
- received from the Supervisory Body, of which Statutory Auditor Ms Antonella Carù is a member, information about the results of its own control activity, which did not reveal anomalies or misconduct;
- held periodic meetings with representatives of the external auditor in order to exchange important data and information for the performance of its duties, as prescribed in art. 150, paragraph 3, of the TUF. In this regard, it should be noted that no important data and information were identified which would require a mention in this Report;
- obtained information from the corresponding bodies of the main subsidiaries with regard to their management and control systems and their general operating performance (pursuant to paragraph 1 and 2 of art. 151 of the TUF);
- gave its favourable opinion to confirm the role of Manager responsible for the preparation of the corporate financial documents to Mr Francesco Tanzi, resolved by the Board of Directors of 22 June 2020;
- gave its favourable opinion, pursuant to art. 2386 of the Italian Civil Code, on the appointment by co-option of Director Angelos Papadimitriou on 5 August 2020;
- endorsed, as better described above, the RPT Committee proposal to confirm the RPT Procedure;

- received the annual report from the Company's Data Protection Officer which showed the Company is fully compliant with privacy legislation;

- issued statements on the (i) non-application of the limits pursuant to art. 2412 of the Italian Civil Code for the issue of the equity-linked bond "EUR 500 million Senior Unsecured Guaranteed Equity-link Bonds due 2025", approved by the Board of Directors on 14 December 2020 and (ii) underwriting and payment, in full, of the share capital, during the Shareholders' Meeting held on 24 March 2021, that resolved on the conversion of the aforementioned bond and the increase of capital in favour of said bond.

During the 2020 financial year the Board of Statutory Auditors did not receive any complaints or reports pursuant to art. 2408 of the Italian Civil Code.

With regard to the external auditor, the Board of Statutory Auditors noted that PWC:

- issued its report pursuant to art. 14 of legislative decree no. 39 of 27 January 2010 and art. 10 of Regulation (EU) 537/2014 on 2 April 2021. This containing its opinion without remarks stating that the separate and consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as at 31 December 2020, and of the economic results and cash flow for the financial year that closed on that date, in compliance with applicable accounting standards, and provided evidence of key aspects of their audit;

- issued a coherence opinion indicating that the Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2020, and some specific information contained in the Report on corporate governance and share ownership, as laid down in art. 123-*bis*, paragraph 4, of the TUF have been drafted in compliance with current legislation;

- as regards possible significant errors in the Report on Operations, stated that, based on the knowledge and understanding of the company and its market that it had acquired in the course of the audit activities, it had no matters to raise;

- confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities with on-going relationships with the external auditor itself;

- on 2 April 2021, provided the Board of Statutory Auditors with the Additional Report referred to in art. 11 of Regulation (EU) 537/2014, indicating that there were no significant shortcomings in the internal control system in relation to the financial reporting process that needed to be brought to the attention of persons responsible for "governance" activities;

- on 2 April 2021, pursuant to art. 3, paragraph 10, of legislative decree no. 254 of 30 December 2016, issued the Report on the responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254 of 30 December 2016), concluding that no elements had come to PWC's attention that led it to believe that the group's DNF for the year to 31 December 2020 had not been drawn up, in all significant aspects, in accordance with the requirements set out in legislative decree 254/2016 and the GRI Standards;

- annexed to the Additional report, the external auditor provided the Board of Statutory Auditors, pursuant to art. 6 of Regulation (EU) 537/2014, with a statement from which no situations emerge that could compromise the independence of the external auditor (for more details concerning the provision of non-auditing services, see the paragraph entitled “supervising the independence of the external auditor, in particular with regard to the provision of non-auditing services” in this Report).

The Board of Statutory Auditors also took note of the Transparency Report drafted by the external auditor and published on its web site, pursuant to art. 18 of legislative decree 39/2010.

Furthermore, with regard to the corporate bodies, the Board of Statutory Auditors noted that:

- the Board of Directors in office - that will expire at the Shareholders’ Meeting convened for the approval of the financial statements of the financial year ending 31 December 2022 - at the date of the Report is composed of 14 Directors (due to a vacancy following the aforementioned resignation of Angelos Papadimitriou on his re-appointment as Director), of which 13 are non-executive Directors and, of these, 8 hold the independence requirements provided for by the Corporate Governance Code (in force until 31 December 2020), by the New Corporate Governance Code (in force from 1 January 2021) and by the TUF. During 2020, it met 9 times.

At the date of the Report:

- the Audit, Risks, Sustainability and Corporate Governance Committee is composed of five Directors, the majority of whom are independent. During 2020, it met 8 times;
- the Remuneration Committee is composed of five Directors, the majority of whom are independent (the Chairman is an independent Director). During 2020, it met 4 times;
- the Related-Parties Transactions Committee is composed of three Directors, all independent. During 2020, it met 10 times;
- the Appointments and Successions Committee is composed of four Directors, one of whom is the Executive Director. During 2020, it met 2 times;
- the Strategies Committee is composed of seven Directors, including the Executive Director and three independent Directors. During 2020 it met 2 times.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the board committees, also in its capacity as internal control and audit committee pursuant to art. 19 of legislative decree no. 39 of 27 January 2010.

The Board of Statutory Auditors also attended the ordinary Shareholders’ Meeting that in 2020 was held on 18 June.

The percentage attendance figures of the single members of the Board of Statutory Auditors at the meetings of the above corporate bodies are provided in the Report on corporate governance and share ownership.

Finally, the Statutory Auditors acknowledge:

- that they have monitored fulfilment of the requirements linked to the “Market Abuse” and “Investor Protection” regulations on the subject of corporate information and internal dealing, with particular reference to the handling of inside information and the procedure for the dissemination of press releases and information to the public;

- that they periodically ascertained, upon their appointment and most recently in their meeting on 22 March 2021, as recommended by the Borsa Italiana Corporate Governance Code and the New Corporate Governance Code, that members possess the same independence requirements - where applicable - as those requested for the directors in the aforementioned codes of conduct;

- that they have found that the criteria and procedures to ascertain the independence requirements adopted by the Board of Directors to annually verify the independence of its members are correctly applied, and have no comments to make on this point;

- that they have determined that the Director’s report on the Company’s financial statements describes the main risks and uncertainties to which the Company is exposed;

- that, with reference to the provisions of art. 15 of Consob Regulation 20249 of 28 December 2017 concerning market discipline, they have ascertained that the organisation of the company and the procedures adopted enable Pirelli to ensure that the companies it controls and which are constituted in and regulated by the laws of States that are not members of the European Union subject to respecting the aforementioned Consob provisions, have administrative-accounting systems appropriate to regularly provide the senior management and external auditor of the Company with the information on its profitability, financial position and assets and liabilities needed to draw up the consolidated financial statements. On 31 December 2020, the subsidiaries set up in and regulated by the laws of States that are not members of the European Union and deemed to have significant importance under art. 15 of Consob Market Regulation are: Pirelli Neumaticos SAIC (Argentina), Pirelli Pneus Ltda (Brazil), Comercial e Importadora de Pneus Ltda. (Brazil), Pirelli Comercial de Pneus Brasil Ltda (Brazil), Pirelli Tyre Co., Ltd (China), Pirelli Neumaticos de Mexico S.A. de C.V. (Mexico), Pirelli Neumaticos S.A. de C.V. (Mexico), Limited Liability Company Pirelli Tyre Russia (Russia), Pirelli Tyre (Suisse) S.A. (Switzerland), Pirelli Otomobil Lastiskeri S.A. (Turkey), Pirelli Tire LLC (USA).

During the course of its supervisory activities, and on the basis of the information obtained from the external auditor, no omissions, misconduct, irregularities or significant facts were found which are worthy of being reported or mentioned in this Report.

The activities described above, conducted both collectively and individually, have been documented in the minutes of the 12 meetings of the Board of Statutory Auditors held during 2020.

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The Board of Statutory Auditors noted that, at the date of this Report, the Coronavirus health emergency was still ongoing around the world, including in Italy.

In this regard, the Board of Statutory Auditors:

- undertook to continuously monitor the evolution of the reference regulatory framework and provisions issued by the competent Authorities to address the ongoing Covid-19 crisis, concerning the supervisory activities it is responsible for with reference to Pirelli;

- was constantly informed by the competent departments of the Company of the assessments carried out by the management and the actions implemented to monitor the possible social, economic and financial impact of the Covid-19 emergency on the Group. This exchange of information was continuous throughout 2020 and will continue until the end of the ongoing pandemic;

- continuously monitored, within its respective competence, throughout 2020, the issuing of *i)* recommendations, by the competent European and Italian local Authorities, that could impact on Company and Group activities and, in particular, on the process of periodic financial reporting, *ii)* guidelines by the trade associations and the firm engaged to perform the external audit, PWC, on the interpretation and the consequent application of certain international accounting standards.

In particular, the Board of Statutory Auditors, as part of its duties and for the purpose of the issue of the present Report, also took into account:

- the recommendations provided by ESMA in the public statement "*Implications of the COVID-19 outbreak on the half-yearly financial Reports*" of 20 May 2020;

- the Consob warning notice no. 6/20 of 09 April 2020;

- the Consob warning notice no. 8/20 of 16 July 2020;

- the Consob warning notice no. 9/20 of 30 July 2020;

- the recommendations provided by ESMA in the public statement *"European common enforcement priorities for 2020 annual financial reports"* of 28 October 2020;

- the Consob warning notice no. 1/21 of 16 February 2021, and

- the Consob warning notice no. 4/21 of 15 March 2021.

To this end, the Board of Statutory Auditors expressed:

- that it had received correct and complete information from the Board of Directors, the Manager in charge, the Chief Executive Officer and the competent Departments within the Company on the training process and on the information provided in the 2020 Company's draft financial statements and the 2020 Group's Consolidated Financial Statements;

- that it had constant, continuous and particularly in-depth exchanges with the auditing firm regarding the training process and the information provided in the 2020 Company's draft financial statements and the 2020 Group's Consolidated Financial Statements and regarding the elements which arose during the auditing and control activities for which the same was responsible; no issues worth noting in this Report arose during these exchanges;

- that there had been a constant exchange of information, pursuant to the provisions of art. 151, paragraph 2, of the TUF, with the corresponding control bodies of the main subsidiaries; no issues worth noting in this Report arose during these exchanges;

- that there was no particular evidence that would lead the Board of Statutory Auditors to disagree with the assessments carried out by the Board of Directors confirming the existence of the requirement for business continuity;

- that the Company did not make use of its opportunity to suspend the regulations pursuant to articles 2446 and 2447 of the Italian Civil Code;

- that the regulatory restrictions imposed, at the national and international level, with regard to movement during the ongoing Covid-19 emergency did not pose particular limitations on the monitoring activities of the Board of Statutory Auditors of the Company and those of the corresponding Control Bodies of the main subsidiaries or on the auditing activities carried out by the auditing firm.

With reference to the ongoing Covid-19 emergency, the Board of Statutory Auditors also noted that the "2020 Annual Financial Report", approved by the Board of Directors of the Company on 31 March 2021 and made available to the public according to the terms and procedures provided for by the regulatory frameworks in force, reports:

- in the Directors' Report on Operations at 31 December 2020, a paragraph entitled "The cost competitiveness plan and actions to tackle the Covid-19 emergency";

- in the Explanatory Notes, a paragraph on "Covid-19", as well as additional information on the effects of the pandemic with regards to each potentially affected component.

SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

In 2020, the Board of Statutory Auditors – in continuity with the previous financial year and as recommended by the Rules of Conduct – conducted a self-assessment with the assistance of the independent consulting firm SpencerStuart.

This self-assessment was carried out through individual interviews, based on a questionnaire containing questions on the suitability, size, composition and operation of the Board of Statutory Auditors in order to attest that the body is operating correctly and effectively and that its composition is adequate and the related outcomes were discussed and agreed upon by the Board of Statutory Auditors during a dedicated meeting held on 22 March 2021.

The Board of Statutory Auditors noted that the self-assessment of 2020 (the current Board of Statutory Auditors' third and last year of mandate) confirmed a broadly positive picture of the composition and operation of the Board of Statutory Auditors, as already outlined in the previous years. In fact, despite the exceptional circumstances due to the pandemic, the profound knowledge of the Group's business and dynamics acquired by the Statutory Auditors over the course of the previous years has enabled them (also while working remotely) to efficiently carry out the work they initiated at the end of the first year of mandate.

The areas for which the most appreciation was reported include, *inter alia*, the excellent relations with the Company and the Pirelli management team, the suitability of the size and composition of the Board of Statutory Auditors, the extremely efficient training and induction sessions, used as a means of gaining knowledge about the Group and the business, and the Company and Board of Directors' significant contribution to addressing the challenges of the current health crisis, along with accurate and timely communications and reporting.

From the investigation, some areas have been identified for future reflection, including forecasting, when possible, opportunities for informal meetings with Company Directors and managers and continuing an active participation in induction sessions.

It should also be noted that the Board of Statutory Auditors, due to expire - as already established - on completion of its mandate with the Shareholders' Meeting convened to approve the annual financial report at 31 December 2020, undertook to draft a document, pursuant to the Rules of Conduct, intended to make available to the shareholders a complete picture of the activities that the Pirelli Board of Statutory Auditors, appointed by the Shareholders' Meeting, is required to perform and, in addition to this, a summary of its assessments regarding the optimum composition of the controlling body (in addition to the regulatory requirements) for the purposes of the effective operation of the same. The considerations presented in the aforementioned document take into account the experience gained by the members of the outgoing Board of Statutory Auditors in performing their duties, Pirelli's corporate governance system and the results of the self-assessment process referred to in this paragraph of the Report.

BOARD OF DIRECTORS SELF-ASSESSMENT PROCESS

The Board of Statutory Auditors notes that the Board of Directors carried out the process to evaluate its operation and the operation of its Committees (board performance evaluation) for the 2020 financial year. For the purposes of the assessment process, the Board – in line with what was done in the previous financial year – also availed itself of the assistance of the aforementioned consulting firm, SpencerStuart. The self-assessment process was carried out through individual interviews with questions about the size, composition and operation of the Board of Directors. The results of the board performance evaluation were shown and shared in the Board of Directors Meeting of 31 March 2021, after sharing these with the Audit, Risks, Sustainability and Corporate Governance Committee on 22 March 2021. The Board of Statutory Auditors notes that it participated in both of the aforementioned meetings. The Report on the corporate governance and share ownership summarises the areas regarding which the most appreciation was reported, along with some indications which emerged on how to further improve the operation of the Board.

PROPOSALS TO THE SHAREHOLDERS' MEETING

FINANCIAL STATEMENTS AT 31 DECEMBER 2020

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2020 and has no objections to raise regarding the proposal made to:

1) distribute to the shareholders a total dividend, gross of withholdings tax, consisting:

- for euro 43,956,054.00 of the profit for the year;
- for euro 36,043,946.00 of retained earnings from previous years and recorded in the balance sheet liabilities under the item "Retained earnings reserve",

and therefore to distribute a dividend of 0.08 euro for each of the 1,000,000,000 outstanding ordinary shares, for a total of 80,000,000.00 euro;

2) to authorise the Directors to allocate to retained earnings the balance of the rounding that may be determined at the time of payment of the dividend;

3) to establish, in the event that before the ex-dividend date, the number of outstanding ordinary shares changes following the bond conversion of the equity-linked bond named "EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025", that the abovementioned unit dividend remains unchanged and that the amount necessary for distribution of any new shares is taken from the item "Retained earnings reserve".

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is due to expire due to the completion of its mandate.

We would like to thank you for the trust you have put in us and we would like to remind you that all Shareholders are invited to appoint the Board of Statutory Auditors for the next three-year period using the slate voting system.

REMUNERATION POLICY AND COMPENSATION PAID

Please note that the Board of Statutory Auditors expressed a favourable opinion of the Remuneration Policy for the 2021 financial year subject to the binding vote of the Shareholders' Meeting and the Report on Compensation Paid in the 2020 financial year, subject to the advisory vote of the Shareholders' Meeting.

THREE-YEAR MONETARY INCENTIVE PLAN FOR THE PIRELLI GROUP'S MANAGEMENT

We would like to inform you that the Board of Statutory Auditors has expressed its favourable opinion, within the scope of its competence, on the review of the "cumulative Group Net Cash Flow (before dividends)" objective included in the 2020-2022 LTI Plan, on the possibility of normalising the effects on the promotion of the TSR objective relative to Cooper's integration in Goodyear, and on the adoption of the new 2021-2023 LTI Plan to support the new 2021-2022/2025 Strategic Plan.

OTHER ISSUES SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Regarding the other issues submitted to you for approval (the appointment of a Director) the Board of Statutory Auditors has no comment to make.

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Pursuant to art. 144-*quinquiesdecies* of the Issuers' Regulations, duly approved by Consob with resolution 11971/99, as subsequently amended and supplemented, the list of offices held by members of the Board of Statutory Auditors in the companies listed in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob on its website (www.consob.it).

It should be noted that art. 144-*quaterdecies* (Consob reporting obligations) establishes that a person who is a member of the controlling body of just one issuer is not subject to the reporting obligations provided by said article, and therefore, in that case, they do not appear in the lists published by Consob.

The Company lists the main positions held by the members of the Board of Statutory Auditors in its Report on corporate governance and share ownership.

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the aforementioned regulatory provisions laid down by Consob governing the "maximum number of positions to be held".

Milan, 2 April 2021

Mr Francesco Fallacara

Mr Fabio Artoni

Ms Antonella Carù

Mr Luca Nicodemi

Mr Alberto Villani